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CENTRAL BANKS



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CENTRAL BANKS

A STUDY OF THE CONSTITUTIONS OF
BANKS OF ISSUE, WITH AN ANALYSIS
OF REPRESENTATIVE CHARTERS

BY
C. H. KISCH, C.B.
AND
W. A. ELKIN

WITH A FOREWORD BY
THE RIGHT HON. MONTAGU C. NORMAN, D.S.O.
GOVERNOR OF THE BANK OF ENGLAND

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FOREWORD

DURING a period of fifty years or more ending with the early years of the present century, the gradual development of Central Banking was taking place in various countries without being the subject of discussion and, indeed, almost without attracting notice. No general rules were considered necessary for the guidance of note-issuing Banks, which had been developed or established on lines conforming to the particular needs and prospects of their respective countries. Such differences in practice as existed had arisen in part from the statutes governing the various Central Banks, but perhaps more from the gradual adoption of varying customs and traditions which had come to have almost the force of law.

With the outbreak of war in 1914 the traditional practices of Central Banks were gradually abandoned under the pressure of political expediency. The following years of peace saw the scope of some existing Central Banks altered and new institutions established, and with the return of more normal conditions questions arose regarding the rightful functions and powers of Central Banks in general. Thus it became necessary to consider precisely what rules and statutes should be adopted for the purpose either of limiting or of increasing the respective powers of such Banks.

We may trace the long period of natural growth in Central Banking, followed first by the collapse brought about by the years of war, and next by a widespread development of theory and practice, for the most part under new and definite limitations. In order to consider profitably

this period of renewed development and to judge of the relative degrees of independence now possessed by Central Banks, it is useful as a background to ascertain precisely the various limitations which govern the conduct of individual Banks. This is a matter which, amid much discussion of the policies of Central Banks, seems to have attracted little attention. There appears to be no convenient record of charters, laws or statutes, nor any scientific opinion as to how much liberty or how much power of control is or should be permitted. Indeed, it seems evident that the limitations imposed on new or reorganised Banks during the last few years arise more from the fear and mistrust of political interference than from the needs of Central Banking as such. In any case, this whole question is now beginning to be studied from various standpoints and in various countries, and nothing therefore seems more useful than an examination of the statutes which govern the conduct of particular Banks. Once a ready means to do this has been supplied, further consideration of the whole question of Central Banking may proceed more usefully and hopefully. Thanks to the initiative of Mr. Kisch this means is now supplied in a book which I commend not only to bankers and students but to all who are interested in financial reconstruction.

MONTAGU NORMAN.

9th November 1927.

PREFACE

The authors desire to express their thanks to the Banks of Issue and Public Departments and other authorities who have provided copies of Bank Acts and Statutes and other information. In a number of cases the Banks have been kind enough to examine the summary of the relevant laws and statutes in Appendix I. In particular the authors wish to express their great obligation to Mr. F. C. Goodenough, Chairman of Barclays Bank; Sir Otto Niemeyer, G.B.E., K.C.B.; and Sir Henry Strakosch, G.B.E., who kindly read the book before publication and made various valuable suggestions based on their wide knowledge and experience.

C. H. K.

W. A. E.

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CHAPTER I

INTRODUCTORY

The Central Bank as Currency Authority

WHEN Bagehot, in 1873, wrote *Lombard Street*, he referred to the fierce controversy that still at that time raged round the Bank Act of 1844. "If you say anything about the Act of 1844", he wrote, "it is little matter what else you say for few will attend to it." But the days of fiery argument ceased, and the Bank Act came to be regarded as an accepted feature in the economic organisation of the country that no one would seriously think of changing. It is significant that forty years after it was written Bagehot's analysis of the essential principles on which the London money market was based was still relevant. There had, of course, been changes of great importance in the intervening years, but they came by way of natural growth and left the fundamental structure unaltered. But in a few days in August 1914 the system of seventy years' standing was ended; the free gold market and the Bank's virtual monopoly of note issue, the two most important features of the Bank Act, were jettisoned. The free gold market has now been restored. The Treasury note issue is likely at no distant date to be amalgamated with the bank-note issue and the unified circulation will be under the control of the Bank of England. One question which inevitably arises with regard to this unification is whether the principles embodied in the Act of 1844 for the regulation of the note issue should be maintained or whether, as some eminent banking authorities

have urged,¹ this country should adopt the more usual Continental and American plan of having a proportional instead of a fixed fiduciary issue.

But it is not only in England that questions affecting the Central Bank have urgently demanded consideration during the last few years. When the International Financial Conference met in Brussels, in 1920, one of the resolutions it passed was that "in countries where there is no Central Bank of Issue one should be established". In the context in which it was passed, this resolution illustrates the close connection between the maintenance of financial stability with the work of a central banking organisation. In the last six years the advice of the Brussels Conference has been widely followed. New Central Banks have been formed and many existing Banks have been drastically overhauled. The reorganisation of the Reichsbank was an integral part of the Dawes scheme; the countries that previously formed part of the Austrian and Russian Empires as well as certain of the Balkan countries have established new Central Banks. Similar steps have been taken in some of the South American States and in South Africa, while India is in process of following suit. In other countries, such as Belgium and Norway, though the previous structure remains, important changes have been introduced.

In most of these cases, the establishment or reorganisation of the Central Bank has been part of a scheme for the stabilisation of the currency and the prevention of inflation. The evils that have followed the excessive issue of paper currency are too well known to need any detailed description. The lack of a stable unit of value and the consequent insecurity introduced into every contract, the wiping out of capital values accumulated in the past and the general

¹ Cf. Rt. Hon. R. McKenna at meeting of Midland Bank, 28th January 1927. Dr. W. Leaf, *Banking* (Home University Series), pp. 74 and 77-78. Contra: *First Interim Report of the Committee on Currency and Foreign Exchanges after the War*, 1918; *Report of the Committee on the Currency and Bank-Note Issues*, 1925; and Mr. F. C. Goodenough at meeting of Barclay's Bank, 20th January 1927.

feeling of uncertainty as to future values, led to economic and social disorders which have been experienced to a greater or lesser extent in nearly every country of the world. At its worst the havoc wrought by inflation was so great that it became almost a matter of life or death to the nations concerned to put an end to it. But even where the situation was less extreme, the dislocation of trade and industry and of the social economy were sufficiently serious to demonstrate beyond question the vital importance of maintaining a stable currency. To achieve this end the different countries, one after the other, are replacing the paper standard by a gold standard. It is, of course, theoretically possible, even though the notes are not freely convertible into gold, to maintain their value either by means of stringent restriction of issues or by linking up the volume of currency with price levels as shown in index numbers. To discuss the possibility or advantages of such methods would be outside the scope of this book. But (after consideration of all alternatives the consensus of financial opinion has reaffirmed the pre-war conclusions, arrived at after a series of experiments and failures, that in present conditions gold is still the least unsatisfactory standard of value¹ and that the surest method of preserving stability in the purchasing power of money is to base currencies on gold.

If the fixed link between national currencies and gold is preserved, stability of exchange between such currencies is ensured, and a broadly based community of interest is created for keeping the purchasing power of gold itself stable and free from violent fluctuation. Expressed in simplest terms, the necessary legal requirement for the maintenance of the established ratio between a currency and gold consists in the obligation of the Government, or the currency authority, to buy and sell gold at a fixed parity on demand and to impose no bar on the import or export of gold. This simple formula is open to certain variations in practice, as for

¹ Cf. Resolution 5, adopted by the Financial Commission at the Genoa Conference, 1922: "Gold is the only common standard which all European countries could at present agree to adopt".

instance when a country elects to establish a link between its currency and gold, not directly but through the medium of one or more external currencies based on gold, such as the pound sterling or the dollar. This form of gold standard is generally known as the gold exchange standard. It is not necessary to pursue the distinctions between the different varieties of gold standard further in this connection. The essential thing to note at this stage is that when an unlimited obligation to provide gold, or gold exchange, at a fixed price has once been imposed, the currency authority has a definite incentive to take steps to check a drain on its gold reserves when the drain threatens to be of a continuing character. Such a drain (which is to be distinguished from sporadic losses of gold ascribable to special causes) arises from, and is the indication of, a disequilibrium in the country's balance of payments. This situation may be due to a variety of influences. For example, it may have arisen because a country has lent abroad amounts greater than are consistent with its credit balance on international account, or it may have its origin in a disparity between the internal and external price level which for the time being has made the country a favourable market for sellers and an unfavourable one for buyers. In final analysis the evil is one. The corrective consists in increasing the price of money, that is to say in raising the rate of discount, a course which has the effect of imposing a check on borrowing and of promoting the liquidation of stocks. The measure thus tends to lower prices. Exports will be encouraged and imports checked until an equilibrium of the balance of payments is again achieved. The higher discount rate also has the effect of making the country a favourable market for the employment of funds. The external demand for its currency is therefore stimulated, and the rate of discount has only to be maintained at a sufficiently high level to lead to an inward movement of gold. Meanwhile, within the country, both the lower price level and the restriction of credit tend to decrease the internal need for currency. A certain proportion of the notes in circulation will be returned to

the banks or other issuing authority, and the demand for fresh notes checked. Thus any reduction in the gold in the country which necessitates the maintenance of an increase in the rate of discount will ultimately lead to a smaller note issue. On the other hand, if the relative levels of internal and external prices are such that gold is being imported, the Central Bank may lower its discount rate. This will set in motion a converse process to that described above. The extended credit and the higher level of prices which the reduced discount rate will bring about can however only be sustained if the currency is increased. The issuing authority will find itself faced with an increased demand for notes which owing to the larger gold holdings it can safely satisfy. In this way gold coming into the country is made the basis of fresh note issues.

The maintenance of a stable currency is so fundamental to the well-being of every nation that at first sight it might appear as if the State itself should carry out this vital national service. One explanation of the fact that in most countries the State has handed over the responsibility of the note issue to banking institutions is to be found on the economic side in the relation outlined above between the rate of discount and the note circulation and the volume of credit. The rate of discount is the chief weapon for ensuring the due proportion between the volume of credit, the note issue and gold holdings, and thus for maintaining the stability of value of the currency unit, and since the rate of discount is properly the instrument of a bank, there is a sound reason for entrusting to a bank the control of the note issue.

There is further the danger that if the management of the note issue is entrusted to the State itself, the Government may be tempted to adopt the simple method of raising money that is offered by the power of printing notes. Taxation is never popular, and keeping the expenditure within bounds is not always easy. As experience has abundantly proved, increasing the note issue is an all too simple method of temporarily filling in the gap, if the power

to do so rests with the Government. Monetary policy should be independent of political contingencies, and the surest way to secure this result is to place the control of the note issue in the hands of a bank. These two considerations, economic and political, explain why the issue of notes has not been left in most countries under the control of the State, but has been handed over to appropriately constituted banks. To what extent the issuing banks should be subject, directly or indirectly, to Government influence raises other questions which are considered in Chapter II.

If it is granted that the issue of notes, and the consequent responsibility for the maintenance of the value of the currency unit, is rightly entrusted to banking organisations, the question arises whether it should be to a specially constituted Central Bank or whether there should be several issuing authorities as is the case, for example, in Canada at the present time. There are serious drawbacks to this latter scheme as it involves a divided responsibility and a lack of leadership. The gold standard is sometimes spoken of as an automatic system. The phrase is in the highest degree misleading. Whether there is a gold standard or not, the control of the credit and monetary system involves the solution of many difficult problems of policy and detailed administration. But if there are many issuing authorities there cannot be one controlling force to direct the monetary policy of the country and this is bound to be a source of weakness, especially at a time of serious crisis when a well-devised and coherent plan of action, vigorously applied, is essential. The need of a strong central organisation was demonstrated beyond question by the experience of the United States during the economic crisis of 1907. There were at that time a large number of national banks, each with the right of note issue, but their interests were predominately local and there was little or no co-operation between them. The leadership that alone could have dealt effectively with the problems of that crisis was lacking, since each bank regarded it from its own immediate angle and there was no single authority which could grapple with

the situation as a whole from a national standpoint. One aspect of this lack of leadership was seen in the handling of the gold reserves. There was more gold in the United States at that time than in any country of the world, but each bank clung jealously to its own holdings. The gold was consequently ineffective since it was scattered, and could not be brought to bear at the points at which it was most needed. The concentration of reserves and the control of the money market, imperative for the mitigation and avoidance of a financial crisis, demand a central or reserve banking organisation. Such an organisation standing behind the commercial banks is able, by the use of the reserves held against the contingency of a crisis, to bring support to any threatened point and to avert the loss of confidence, the continuance of which is necessary for the stability of any credit system. This was the conclusion that the United States authorities drew from the experience of 1907, and the Federal Reserve System was devised in order to prevent the repetition of such a catastrophe.

The Federal Reserve System marked a departure in two important respects from any other banking system then in force. First, instead of the usual single Central Bank, there are twelve regional Reserve Banks so federated under the Federal Reserve Board as to form an organic banking system and to work with a unity of purpose. Secondly, the relation established between the Reserve Banks and the commercial banks constituted a complete innovation in banking practice. The Federal Reserve Banks are essentially bankers' banks; that is to say, their only depositors are other banks and the Government. No part of the capital has been subscribed either by the public¹ or the Government as occurs in other countries, but by the commercial banks, the contribution being obligatory as far as National Banks are concerned, and voluntary for State Banks and Trust Companies, complying with certain

¹ The Act permitted the issue of capital to the general public in the event of the capital subscribed by the member banks proving insufficient, and, if public subscriptions proved insufficient to the State. It has not, however, been necessary to put the clauses into operation.

requirements. The membership of the Federal Reserve System, which the commercial banks thus acquire, gives them on the one hand a share in the administration of the Federal Reserve Banks and on the other hand brings them to a considerable extent under the direct control of the Federal Reserve Board, and subjects them to the provisions of the Federal Reserve Act. They are, for example, subject to the examination and inspection of the Board, and are required to keep a reserve of a specified percentage of their deposit liabilities with the Federal Reserve Banks. The idea of having member banks that subscribe all or part of the capital of the Central Bank has been adopted in certain South American countries, namely Chile, Colombia, Ecuador and Peru, where the Central Banks have been founded under the guidance of American banking experts. Certain features of the system were also applied in the constitution of the Reserve Bank of South Africa. All these countries, however, have one Central Bank in the place of the plurality of Reserve Banks of the United States. The existence of the twelve Federal Reserve Banks is principally an expression of geographical relationships and of the economic differences characterising the various parts of the vast territory of the United States, and does not imply the absence of a central directing force. Although each Federal Reserve Bank is allowed a considerable measure of independence to adapt its policy to local conditions, yet they must not be regarded as autonomous and uncorrelated banks. The Federal Reserve Board has such extensive powers that it is in a position to direct the broad policy of the whole Federal Reserve System and thereby exercise control of the money market throughout the country.¹

Considerable emphasis has been laid in the foregoing

¹ In the ensuing chapters no distinction has been made between the Federal Reserve System and other Central Banking systems, except when one of the special features of the former is concerned. There is a looseness of terminology involved in including the Federal Reserve System under the heading of a Central Bank, but the frequent repetition of such a phrase as "Central Banks and the Federal Reserve System" would have been cumbersome and wearisome to the reader.

paragraphs on the importance of having a Central Bank, or other body, such as the Federal Reserve Board, which is strong enough to carry out a definite line of policy. The mere establishment of a Central Bank does not necessarily give this. (The Bank must be so constituted as to be able to control credit and, in particular, to enforce a restriction of credit on the commercial banks if it considers it desirable to do so, for if the commercial banks could continue to lend freely in spite of a higher bank rate, the whole compensatory machinery for attracting gold and regulating the volume of notes in circulation would be invalidated.) The Central Banks acquire the necessary influence through the fact that, in general, they control the reserves of the commercial banks and that they are able to tighten the money market by appropriate operations which have the effect of reducing the supplies of cash held by the commercial banks.¹

The importance of this consideration has been demonstrated by the recent experiences of Poland. The attempt to give the zloty a fixed exchange value equivalent to the gold franc, adopted in 1924, broke down in 1925, and the failure has been in part ascribed to the fact that sufficient precautions had not been taken to secure for the Central Bank effective control of credit conditions in the open market. There was in consequence an excessive expansion of credit by the commercial banks, which led to a heavy drain on the international assets of the Bank of Poland.² The weakness arising from the lack of the requisite authority in the Central Bank is also well illustrated by the troubles that have arisen on more than one occasion in Japan. Only a few of the commercial banks keep their balances with the Bank of Japan or co-operate closely with it. The Bank as a result has been powerless to control their policy. Even when the circumstances of the day urgently required a restriction of credit and the Bank raised its rate of discount, it has at times been unable to check the continued granting of

¹ The open money-market operations of the Central Bank are considered more fully in Chapter VI.

² *Statist*, 28th May 1927.

excessive credit by the commercial banks. It is this weakness of the Bank that has been one of the chief causes of the frequent financial crises in Japan.¹ On the other hand, the severity of the crises when they have occurred has been mitigated by the action of the Bank in lending freely to the banks involved. In the recent crisis (April 1927), one of the great banks of the country, which acted as Central Bank for the Island of Formosa and had the privilege of note issue, was threatened with collapse owing to having locked up an excessive amount of assets in advances to a great commercial firm, which found itself in difficulties. An alarming situation arose, associated with a rush for the withdrawal of deposits from a number of banks. Some suspended payment, and so serious was the situation that a moratorium of three weeks was introduced. The Bank of Japan in association with the Government took the situation in hand, and gave assistance at the threatened points. Its discounts and advances which on 12th March 1927 stood at 279 million yen had risen on 23rd April to 1729 million yen; in the same period the note issue rose from 1090 to 2334 million yen. The panic was stayed, and deposits withdrawn tended to return. One obvious evil which has been brought to light lies in the close connection that existed between one of the Chartered Banks (with note-issuing powers) and trading concerns. This is a matter that will call for notice hereafter. At this stage it is only desired to emphasise on the one hand the advantages that the country derived from the possession of a Central Bank capable of intervening to alleviate panics and, on the other, the dangers that arise when the financial system centring round the Bank lacks the requisite cohesion.

The lessons to be derived from the history of banking crises and the appreciation of the advantages that a sound central banking system offers are sufficient to explain why these recent years of currency restoration have seen so many new Central Banks established and such complete over-

¹ G. C. Allen, "Currency and Exchange Policy of Japan", *Economic Journal*, 1925.

hauling of certain of the older organisations. The lack of a Central Bank is exceptional in highly developed commercial and industrial countries. Reference has already been made to the case of Canada which still retains fifteen Chartered Banks with the right of note issue. Such a situation may be regarded as an intermediate stage in banking development and though the system appears to have satisfied the needs of Canada hitherto, it is not one that any country in process of reorganising its currency and banking methods has thought proper to adopt. It is significant in this connection that Italy, in 1926, took steps to unify under the Bank of Italy the note issues which previously were in the hands of the Bank of Italy, the Bank of Naples and the Bank of Sicily. The notes of the two last-named Banks were to be replaced gradually by notes of the Bank of Italy and ceased to be legal tender from 30th June 1927.

An exceptional case is presented by the Irish Free State, whose currency system has recently formed the subject of an official inquiry. The Irish Banking Commission in their interim report of 1926 rejected the suggestion of entrusting the control of the currency to a Central Bank and proposed that it should be placed in the hands of a statutory Commission. The reasons for rejecting the suggestion of a Central Bank are in the main two. First, as the Commission pointed out, the Free State "is now, and will undoubtedly long continue to be, an integral part of the economic system at the head of which stands Great Britain". In other words if, as is proposed, the Free State adheres to sterling, the proper Central Bank for the Free State is the Bank of England, within whose sphere of influence the operations of the Irish banks are conducted. Further, the Commission observed that "the general credit basis for Central Banking in the Saorstat is still rudimentary" and that "there is no independent discount market in Ireland and in fact apparently little market for bills of exchange outside the banks". Similarly in the case of India, the relatively undeveloped condition of credit goes a long way to explain the fact that

not until the present time have the Government considered the country ready for the institution of a central banking system. Unless, however, a country is under the dominating influence of a neighbouring money centre, or unless the local credit structure is insufficiently developed, the arguments on the economic side for handing over the management of currency to a Central Bank are convincing. There is, moreover, much to be said for the view that the risk of "prematurity" in the creation of a central banking system should not necessarily be regarded as a decisive factor, because there is no influence so potent in the way of developing the credit system on sound and progressive lines as a well-founded Central Bank.)

In the following chapters the principles underlying the organisation of a Central Bank are examined and their application is illustrated by reference to the bank charters of different countries. The first branch of the subject to be considered is the relation of the Central Bank to the State. Is complete or partial State control likely to render the Bank's policy more truly national in character and to add to the security of the Bank, or is the irruption of political influences likely to prove a danger? At a subsequent stage the limitations of the note issue and the question of reserves are discussed. A wise regulation of these subjects is fundamental to the security of the Bank and to the maintenance of the standard of value. The importance of having an adequately elastic note currency is also considered from the point of view of its reactions on the economic well-being of the country. The issue of notes is, however, only one side of the activity of a Central Bank, and in economically advanced countries a decreasingly important side. The regulations defining its other functions should be so devised as to prevent the Bank from taking risks which would be unwarrantable in view of its national responsibilities, but on the other hand they should not be so rigid as to hamper the Bank in any way that might limit its economic value to the community. The question of the organisation and administration of the

Central Bank is also important. The methods by which the governing body is appointed, whether by state nomination or by election by the general body of shareholders or otherwise, will clearly effect the Bank's position *vis-à-vis* the State and the public. Precautions are also necessary to ensure that the administration of the Bank shall not be dominated by the interests of any particular section of the business or industrial world or by political influences. The question of the capitalisation of the Central Banks is discussed, together with schemes for the distribution of earnings. These involve in all but exceptional cases some limitations of shareholders' profits. The treatment of the question of profits will be seen to have an important bearing on the policy of the Banks. Finally it is necessary to refer to the need for progressive co-operation between the Central Banks. This is a field where work is only beginning but which promises, with the gradual rehabilitation of State finances, a rich harvest of benefits to national well-being and industry.

In the appendix a summary of the charters of twenty-eight Central Banks is given. In selecting charters for analysis an attempt has been made to reconcile the requirements of space with the presentation of a fully representative series. The range includes the historic Banks of Europe, as well as many of the newly created banks in different parts of the world. Examples of all the most important types have been selected. The Bank of England stands by itself as preserving a legal freedom of action unknown elsewhere. Continental Banking is represented partly by the older foundations, such as the Bank of France, the Netherlands Bank and the Banks of Norway, Sweden and Spain and partly by Banks, such as the Reichsbank and the National Banks of Austria, Hungary, Poland and Bulgaria, which have either been reconstituted or newly created as a result of developments arising from the war. The Bank of Italy has been included as it performs certain central banking functions, though it still carries on much business more germane to a commercial bank. Among the European

Banks will be found examples of State Banks subordinate in varying degrees to the Executive or Legislature. Central Banking, as practised in the British Dominions, is illustrated by the Reserve Bank of South Africa and by the Commonwealth Bank of Australia, which is also noteworthy as combining in certain respects the rôle of a Central and a commercial bank. Central Banking in Asia is exemplified by Japan whose Central Bank was modelled on the Belgian pattern. A further group of Charters includes the United States Federal Reserve Act and the charters of the Banks of Chile and Colombia, which, to a considerable extent, are modelled on the system of the United States.

Extracts and summaries have their drawbacks and must be used with discretion, but the reproduction of the full text of the laws and statutes would not have been possible owing to their length. In summarising the charters, some points of purely local or transitory interest have been deliberately omitted, but care has been taken to preserve all matters of substance and to deal comprehensively with the question of control, note issues, reserves and the permissible sphere of operations.

One special warning to the student of Bank statutes may not be out of place. Theory naturally tends to attribute too much to the written statutes; in fact, everything depends on the spirit and tradition in which statutes are worked. It may happen that seemingly similar statutes may produce different results in neighbouring countries. It is equally possible that from very different texts far less difference may in practice emerge than a superficial examination might suggest. Particularly on such points as the relation of the State to the Central Bank the actual texts require to be interpreted in the light of a close and precise knowledge of the actual working, and nothing could be more misleading than arguments based on bare legal provisions torn from their native setting in daily experience and historical evolution. The form in which it is usual for central banking principle to be enshrined is only the initial

step to wise banking conduct. It must always be reviewed and examined in close connection with the actual circumstances in which it is applied, and there are few fields in which the arguments from analogy required to be used with greater circumspection.

CHAPTER II

RELATIONS BETWEEN THE STATE AND THE CENTRAL BANK

Relation of the State to the Management of the Bank

THE Central Bank of a country stands in a special relationship to the Government, seeing that by its discount policy and the subsequent reactions on credit, gold reserves and note issues it controls the amount of purchasing power available, and is thus responsible for safeguarding the currency standard established by law. The close concern of the Government for the soundness of the Bank is indicated by the fact that in certain countries the Banks are conducted under a Government guarantee. In Sweden, for example, the charter states in general terms that the Riksbank is "placed under the guarantee of the Riksdag". The Commonwealth Government is responsible for all moneys due by the Commonwealth Bank of Australia, whether on its debentures or in respect of other claims—a somewhat remarkable situation as the Bank, as at present constituted, is not restricted in its business to the extent appropriate for a true Central Bank. Even if it is not definitely stated, it is clear that in the event of a Central Bank's failure to meet its obligations the Government of the country would be forced in some way to intervene. To let the Central Bank default and close its doors would involve a financial crisis that would be intolerable. The repercussions on the Government's own credit would be too great. The event may be improbable, but the possibility, however remote, is sufficient to demonstrate that a Government has a vital

concern in the efficiency of the Central Bank and cannot be indifferent to its policy. So much is certain, but the question of how much influence the Government shall be given in the management of the Central Bank, and how this is to be obtained, cannot be so summarily answered.

The pre-war tendency, particularly as regards actual statutory provisions, was somewhat to stress the control of the State over the Central Bank. The Reichsbank was the clearest instance of a general disposition to regard a State or semi-State Bank as analogous to a State railway system or a State tobacco monopoly. The war exhibited in extreme terms the danger of this system. Since the war the tide has set strongly against State interference with the functions of a Central Bank. The Brussels Conference Resolution of 1920 in favour of the creation of independent Central Banks¹ crystallised the general feeling. The independence of the Bank of Issue was a cardinal feature of the League of Nations reconstruction schemes for Austria and Hungary, and the League's Financial Committee have remained strong advocates of independent Central Banks.² Further, in countries where the pre-war legal provisions remain the actual tendency has been strongly against active political control. The operation of a similar principle is to be discovered in the constitutions prescribed for the Central Banks recently established in certain South American Republics. Central Banks have more and more come to be looked upon as analogous to large public trusts and less and less as Departments of State. It has also become increasingly recognised that where private shareholders exist their interests cannot be the only, or even the chief, pre-occupation of the Directors to anything like the extent that they would properly be in the case of an ordinary commercial company

¹ Resolution III. proposed by the Commission on Currency and Exchange and adopted by the Brussels Conference, 1920. "Banks and especially a Bank of Issue should be freed from political pressure and should be conducted solely on the lines of prudent finance."

² Cf. Statutes for Banks of Estonia and Greece, drafted in 1927.

trading for profit.¹ The case for the direct intrusion of the State into the actual workings of a nicely balanced economic machine loses its force as soon as the public responsibilities and public objects of the institution are fully recognised by those responsible for its management and in the code of legal provisions or established tradition by which they are guided.

Nevertheless, for the reasons suggested at the outset of this chapter, most countries have recognised by their Bank Acts that the Government may reasonably have some influence in regard to the constitution of the governing body of the Central Bank. There are indeed only two important Banks which, at least on paper, are quite independent of their respective Governments, namely, the Bank of England and the Reichsbank. The English Bank Act was passed at a time when individualism was the guiding doctrine in political and economic theory, and to have given the State a part in the direction of the Bank would have been in conflict with the doctrine of the day. Nevertheless, there can be little doubt that in practice there is at all times close and continuous co-operation between the Bank and the Government when important issues are involved, and in exceptional periods of stress there is even more than this. The financial policy adopted by this country during the war and subsequent years, being a matter of legal enactment, was dependant on the decisions of the Government. Such measures, as the embargo on gold exports, the *de facto* suspension of specie payments and the issue of Treasury notes, obviously involved consultation with the Bank by the Government with a view to the formulation of an agreed policy, but had there been a variance of opinion between the two authorities, the Government, with its exceptional war-time responsibilities, must in the last resort have been empowered to enforce its will. Thus in times of extreme crisis the Bank, like many other normally independent organisations, is likely to find itself to a large extent under the influence of the Government. At all other times,

¹ Cf. J. M. Keynes, *The End of Laissez-Faire*, pp. 42-44.

however, its independence is secure and unassailed. The inner history of the Bank of England is known only to those in authority, but it is probably safe to assume that the relations of that institution with the Government present few difficulties that are not capable of amicable solution. The Bank has in the course of years built up a body of tradition and experience directed to the public service which is unrivalled, and it may be fairly surmised that no Government in this country would seriously desire to intervene in its administration.

As regards the Reichsbank, the German Bank Act of 1924 opens with the sentence "The Reichsbank is a bank independent of Government control"; so much was this independence stressed by the organisers of the Bank. But the reorganisation of the Reichsbank was part and parcel of a scheme for the payment of reparations and of the financial rehabilitation of Germany, devised by foreign experts at a time when the financial policy of the German Government was politically suspect and had proved to be economically unsound. The Act as a result shows a distrust of Government influence which would probably not have been so manifest had the reorganisation come entirely from within the country. But even in this case the Reichspresident was given a limited veto over the election of the President of the Bank, that is to say, he can refuse his consent to the appointment proposed by the General Council of the Bank. In this case another President is elected. If the Reichspresident refuses his consent a second time, yet a third election takes place, which becomes valid even without his consent.

From the independent organisations of the Bank of England and the Reichsbank a gradually ascending scale of Government influence or control is found culminating in Russia where, in accordance with the prevailing political ideas, "the State Bank forms part of the People's Commissariat of Finances and is directly subordinate to the People's Commissary of Finances" (Art. 1). "The general supervision of the Bank is vested in the People's Commissary

of Finances. In particular he directs the general policy of the Bank, approves all the general rules for operations of the Bank as well as the rate of interest and commission to be paid" and "exercises a general supervision over the operations of the Bank" (Art. 5). The management is in the hands of a Board of Directors appointed by the Government, but it is clear from the articles of the Statutes quoted above that their powers are limited to the detailed executive work and that their subordination to the executive department of the State is complete. The Bank of Finland presents another example of a true State Bank, and "carries on its business under the guarantee and supervision of the Diet" (Art. 2). The management and working of the Bank are entrusted to a Board of Management, the members of which are nominated by the President of the Republic, but it functions under supervision from the Bank Supervisors of the Diet. The duties of these Supervisors are defined in detail,¹ and include various functions normally carried out by the executive or directing body of a Central Bank, such as the fixing of the rate of discount and interest, decisions on questions of foreign credit, the distribution of work among the Managers, and the settlement of all matters relating to salaries. They are thus able to determine the broad questions of policy of the bank as well as many administrative details.

The theory underlying the conception of a State Bank centres on the proposition that since a wise central banking policy is the basis of a sound national economic life, the Bank should be under the control of the national Government. But the dangers of this course are great. Just because the decisions of the Bank react on every aspect of the economic activities of the country, it is essential that its direction should be as unbiassed as is humanly practicable, and as continuous as possible. But clearly if the Bank is under State control continuity of policy cannot be guaranteed with changing Governments, nor can freedom from political bias in its administration be assured. In their report in support of the Bill creating the Central Bank of Chile, the

¹ See *Summary of Bank Act of Finland, infra*, Appendix I. pp. 238, 239.

Commission of Financial Advisers, under the presidency of Professor E. W. Kemmerer, pointed out that there was a widespread and pronounced fear lest the success of the Bank should be wrecked by politics and undue governmental influences, a fear which the past banking history of many South American countries has shown to be fully justified.

But it is not only in America that the danger of excessive governmental influence has been demonstrated. It can be equally well illustrated by the financial history of Europe before, during and since the war. Two instances will suffice. In the latter part of the last century the proceedings of the Bank of Spain were prejudiced by obligations imposed on it by the State, and even before the Spanish-American War it had only been by advances from the Bank entailing currency expansion that the Treasury was able on occasions to meet its engagements. The result was seen in a heavy depreciation of the exchange and in the price of public stocks. Resolute efforts were required later to restore the position. Recent events in France also offer a striking example of the same phenomena. The advances by the Bank of France to the Treasury were limited by law, the maximum having been raised from time to time as appeared desirable. During the war and in more recent years increases became frequently necessary as the purchasing power of the franc fell and the exigencies of the Government increased. But even the enhanced power to borrow from the Bank was insufficient to satisfy the needs of the Government. Acting under Government compulsion, the Bank eventually exceeded the legal limit for advances to the Treasury and published balance sheets devised to hide the fact. When the situation was made public, in April 1925, the Minister of Finance admitted that the legal limit had been exceeded by 1200 million francs in December 1923, and that by the following June the excess had increased to 2325 million. Early in 1925 the excess rose to over 3000 million francs. This had inevitably involved further issues of paper currency, with the result that the volume of notes in circulation rose to 43 milliard francs, although the maximum issue

had been fixed in 1920 at 41 milliard francs.¹ There can be no question that the power of the Government to force increased loans from the Bank of France intensified the depreciation of the franc and contributed to the financial crisis that culminated in 1926. Such extreme abuses of Government power are, of course, only possible when a country has ceased to be on a gold basis. As long as convertibility is maintained the worst evils resulting from Government intervention in banking and currency control are avoided. Probably the Governments which have laboriously dragged themselves out of the morass of inflation will not readily slip back; nevertheless, if the control of the operations of the Central Bank lies directly or indirectly with the Government, it becomes fatally easy for the Government to finance itself for a time by means of book entries and short loans from the Bank, a course which is the first step towards currency depreciation and inconvertibility.

Even apart from such risks there are other serious dangers from a Government-controlled bank. The network of financial and commercial life is so intricate, and the decisions of the Bank on important points have such widespread results, that all interests are not affected in the same way. A change in the rate of discount, for example, which benefits some may be unwelcome to others. But if the Government has a controlling influence over the Bank, there are obvious ways by which the more powerful interests in the country can try to enforce their wishes. The road is open for political intrigue, and there can be no safeguard that the policy of the Bank will be carried on without bias as national interests require. It seems a paradox that when the object is to secure the execution of a national policy, this should not most readily be achieved by the creation of a State Bank under official control, but even in the countries where the capital of the Bank is held by the State, steps have been taken in certain instances to remove its administration from political influences and to give it a measure of independence from the Government.

¹ Hon. G. Peel, *The Financial Crisis of France*, pp. 230-232.

In Latvia the Bank is defined in the Statutes as a State institution but it possesses a greater degree of legal independence than is accorded to the State Banks of Russia or Finland. There is no direct subservience either to an executive department or to the legislature. The administrative organ of the Bank is a Council, and though the members are nominated by the Government and one of them is a representative of the Minister of Finance, yet the Statutes definitely state "the Council is independent in its decisions and the Minister of Finance only has the right of veto for three days following that on which the decision in question is submitted to the Minister. If the Council nevertheless perseveres in its decision, the Minister of Finance can submit the disputed point to the Council of Ministers" (Art. 44). Though this right of veto in theory gives the Minister of Finance the power to intervene in any decision of the Bank, it is improbable that any Minister would use it to influence the normal administration. The power would presumably only be exercised in exceptional cases, when the decision of the Bank on an important question was considered to be inimical to the interests of the State. Australia illustrates another form of governmental relation to a State Bank. Here the Secretary to the Treasury is *ex officio* a member of the Board of Directors. The other members, of whom there are seven including the Governor of the Bank, are all appointed by the Governor-General. The direction of the Bank is thus closely linked up to the Government and the executive by the medium of an officially constituted personnel, but since this personnel includes only one official member as against seven non-official members, the Board of Directors is prevented from becoming a mere Government organ. The Board elects its own Chairman, and when it is once appointed there is no provision for the intervention of the Government as such in the conduct of the Bank's business by the Board. The State-owned Riksbank of Sweden also enjoys in practice a wide measure of independence. The Directors of the Riksbank are chosen by the

King or the Riksdag, but they are not under the control of any executive department of the Government and "are responsible to the Riksdag, its parliamentary committee on banking, and its auditors alone". While control by a Parliamentary body may be free from some of the dangers inherent in the subordination of a Central Bank to the Executive, it still leaves the door open to political influences. In so far as these risks have been avoided in Sweden, it is due to the discretion of the Riksdag in the use of its powers. The National Bank of Bulgaria affords an illustration of a State-owned Bank which is undergoing evolution in the direction of emancipation from Government control. The Governor and two Assistant Governors, who form the executive committee of the Bank, are appointed by Royal decree. Four members of the Administrative Council are nominated from among the high officials of the Central Office by this executive committee, but there are also four members elected by outside bodies, such as the Bourse of Sophia. The Government interests in relation to the Bank are represented by a Government Commissioner who is nominated by the Minister of Finance and may attend the meetings of the Administrative Council but may not vote. He has the right to protest, but on points of law only, against any decision of the Council which he considers to be contrary to the legal powers of the Bank. Such a protest acts as a suspensory veto until the point in dispute has been settled by the High Court. The Minister of Finance also has certain powers of investigation to ensure that the balance as shown in the annual balance sheet is in accordance with the books of the Bank, but except as laid down in the Bank Act "the Bank is not subject to any regulations established by the Government or subordinate authorities of the State" (Art. 77).

In these cases, in order that the State Bank should be able to carry out its task efficiently, the Government and Legislature have in effect imposed on themselves to varying extents a self-denying ordinance limiting their opportunities for intervention. If a tradition to this effect can be

established and can be rigorously maintained, a State Bank based on a suitable charter should in theory be as capable of carrying out a national policy as an institution of an independent or quasi-independent character, but the danger lies in the weakness of human nature to resist the temptation of creating credit when the machinery is provided. In some cases a convention of non-intervention by the State in the affairs of the Bank might be incapable of realisation. In others, even if it appeared to have been firmly rooted, there is always the risk of its breaking down on some particular occasion. If this once happened confidence in the Bank's authority and its own sense of responsibility would have been fatally prejudiced. The issues are too grave to justify the acceptance of this risk if it can be avoided. In a country such as Sweden where State ownership has a long history behind it and sound traditions have been built up, to transfer the Bank into private hands, as has on occasion been suggested,¹ might be difficult and even undesirable, but when the establishment of a new Bank is in question a very different situation arises. If it is desired to protect the Bank from undue Government interference, this can be most efficaciously achieved by making the Bank an independent organisation and giving only such specific and limited powers to the State as may be considered essential in the particular circumstances. To establish a State Bank and then devise machinery to render the Bank to some degree independent of Government control, opens the door to dangers which the alternative method in general avoids. Whatever safeguards may be laid down on paper, it is evident that State ownership affords a facile pretext for the exercise of Government pressure.

It is significant in this connection that even among the recently established or recently reorganised Banks there is already a tendency to move away from complete State control. Thus in Czechoslovakia the partially independent National Bank has replaced the Banking Department of

¹ *The Swedish Banking System*, National Monetary Commission of United States, Senate Document, No. 576, 1913, p. 83.

the Ministry of Finance. In Bulgaria the Bank Act of 1924 gave the National Bank a greater degree of independence from the Ministry of Finance than it had previously enjoyed, and a further step was taken in 1926 when provision was made for introducing for the first time an independently elected element on to the Administrative Council. Finally, the new Estonian Bank Act (1927) contemplates that the State should at an early date dispose of the capital of the Bank, which at present it holds in its entirety, and in the place of a State Bank sets up one which, subject to compliance with the law and statutes, will in its working be independent of control by the Government.

The divorce of the Government from direct responsibility for the monetary policy of the Bank, which is now widely accepted, is in practice subject to one qualification. In an extreme national emergency all States have assumed the right to acquire purchasing power for themselves by whatever means—rightly or wrongly—they deem best in the national interest. These means may include the expansion of the note issue associated with the suspension of specie payments. In such circumstances the Central Bank, with the authority of the Legislature, must conform to *raison d'état*, or in the alternative the Government must take the duty of currency control upon itself. A national crisis which would justify such measures is to be sharply distinguished from the exigencies of party politics and controversy. The danger of State control of the currency lies in the temptation to a Government to treat its political difficulties as justifying a course of action only permissible in an emergency of an entirely different order. If there is an independent or quasi-independent Bank the Government would find it difficult in practice to suspend the obligations of the Bank except when a true national emergency occurs. In such a case the fact that it is the Bank's, and not the Government's, obligations that are involved at once places the matter outside the range of party and presents it in its proper light as a great public question.

As a result of the considerations discussed above most

countries have decided that the national interests in financial policy can best be secured by other means than the entrusting of them to a Bank under State control. The rejection of the conception of a State Bank does not however mean that the State should necessarily stand aside altogether, either as regards the composition of the Central Bank's direction or as regards the general shaping of the relations between the Bank and the State. The degree of State influence admitted varies, however, widely in different cases.

The relations between the Central Bank and the State are affected to some extent by the period for which the Bank's charter is granted. Under the Act of 1844 the privileges of the Bank of England were continued subject to termination at any time, on twelve months' notice to be given after 1st August 1855, and upon repayment to the Bank of the State debt of £11,015,100, together with any other Governments debts that might be owing to the Bank. By the National Debt Act of 1870 it was laid down that the Bank "shall continue a corporation for the purposes of this Act" (*i.e.* the management of the National Debt) "until all stock is duly redeemed by Parliament". The effect of these provisions apparently is to maintain the privileges of the Bank in regard to the note issue until the payment of the State debt to the Bank and to maintain the Bank as a corporation for managing the National Debt so long as there is any debt outstanding. On the constitutional side the Bank is in enjoyment of a charter of indefinite duration and there is no fixed period at which the statutory relations between the Bank and the State in regard to its privileges are obliged to be reviewed. The National Bank of Bulgaria has the irrevocable right of note issue, but most countries have not so far been willing to give a non-Government organisation the exclusive privilege of note issue for an indeterminate period, and at such time as the charter comes up for renewal there is an opportunity for the Government to propose any alterations in the terms of the charter of the Bank that may seem expedient. But these opportunities come in most cases at long intervals. Clearly if the Bank's privileges were granted

for only a few years an undesirable element of uncertainty would be introduced, and there would be a danger of the Bank's becoming involved in party politics. These points have already been raised in the United States of America. Under the Act as it originally stood the charters of the Federal Reserve Banks were only authorised for twenty years, so that they would have been due for renewal in 1933, but it was found that the sense of insecurity which this short term involved unnecessarily hampered the development of the Banks and of the whole Federal Reserve system. The McFadden Act, passed in 1927, accordingly authorised the Federal Reserve Banks to continue "until dissolved by Act of Congress or until forfeiture of franchise for violation of law". While most other countries have kept to a charter of limited duration, the periods for which these are granted differ, varying from ten years, an exceptionally short period, in the case of Switzerland to fifty years in Germany and Chile. The right of occasional revision of the Bank charter does not therefore give a Government any influence over the Bank's policy, but enables the State to overhaul periodically the terms of the concession, including those parts of it that determine the relations between the Bank and the State. In the case of a newly established Bank in particular there are advantages in requiring a review of the whole position after sufficient experience of working has been obtained.

For the purpose of exercising a measure of influence or supervision over the Bank, recourse must be had to other means. It is interesting in this connection to examine the evolution in the United States of the Federal Reserve Act. In the Act as finally passed the President of the United States of America was to appoint five unofficial members of the Federal Reserve Board, one of whom was to be nominated by him as Governor of the Board. In addition the Secretary of the Treasury and the Comptroller of the Currency are *ex-officio* members. The Government is thus given a very definite influence over the decisions of the Board, but, had the original intention of the House of Representatives been

carried out the Board would have been in a position of more or less complete subordination to the executive government. In the Bill as passed by the House of Representatives, the Secretary of Agriculture was an *ex-officio* member of the Board as well as the Comptroller of the Currency and the Secretary of the Treasury, and there were only four appointive members. One of these four was to be nominated as Manager, and in that capacity was to act as chief executive officer under the supervision of the Secretary of the Treasury and of the Board. Moreover, the Secretary of the Treasury was to act as Chairman. The Board would have thus been practically a Committee of the Treasury. The Senate's Bill, on the other hand, made the Secretary of the Treasury the sole *ex-officio* member with six appointive members, one of whom was to be nominated as Governor. The Act as finally passed was a compromise between these two bills, but by placing the *ex-officio* members in a minority of two to five, and by making the Governor an appointive member, it reduced the danger that the Board might become an appendage of a Government department. By an amendment of 1922 a sixth appointive member was added to represent agricultural interests. The situation as created by the Act was apparently not viewed with favour by some of the officials concerned. In 1916 Mr. McAdoo, the then Secretary of the Treasury, placed before the Board a proposal for an amendment to the Act by which the Board would have had to submit an annual estimate of its expenses to Congress and "secure an appropriation therefor in like manner as the executive departments and other independent Boards are required to do". In other words, it was an attempt to make the Board subordinate to Congress and official control. But the Board as a whole was opposed to any increase in its dependence on the Government; the proposal was accordingly dropped, and the Board continued to finance itself by levying assessments on the Federal Reserve Banks.¹

¹ W. P. G. Harding, *The Formative Period of the Federal Reserve System*, pp. 8-13.

It will be noted that in the United States of America the Governor of the Federal Reserve Board is appointed by the President of the United States of America. Similarly in practically every country, though England and Germany are noteworthy exceptions, the responsible head of the administration of the Central Bank is appointed by the Head of the State or the Government, and in some cases one or more members of the executive body are also appointed by the State. In the case of Chile the Government has the right to nominate three Directors out of a Board of ten, but the Board elects its own President. The draft charter of the Bank of Greece drawn up by the League of Nations in September 1927 gives the Bank an unusual degree of independence from the State. While the Government in agreement with the National Bank of Greece are to appoint the first Governor and Deputy-Governor, future appointments to these posts are to be made by the shareholders. The election of the Governor will require the approval of the Government, which will have no other voice in the constitution of the Board.

Where the Government possesses certain powers of nomination to the Board of the Central Bank, the appointments are not intended to give it any power of interference with the administration, but they ensure that the direction of the Bank is in the hands of men in whose judgment it has confidence, and since the appointments are for a limited term only, the long continuance of a policy distasteful to the Government becomes impossible. The officers are, ordinarily, re-eligible for appointment on the expiry of the term specified. Continuity of administration is thus secured in all cases in which the Bank is administered in a way that commends itself to the Government of the country. In the case of the Federal Reserve Board the appointments run for ten years, a longer term than is usual. In settling the period of office it is necessary to strike a balance. Too short a term might induce an overeasy compliance with the desires of the Government with a view to securing re-appointment, while an unduly long term,

though advantageous from the point of view of independence, might entrench unsuitable Directors in office.

As the right to appoint certain members of the governing body does not give the State any continuous power of supervision, this in many instances is introduced by other methods. In Italy the supervision of the note issue, managed by the Bank of Italy, is carried out by the Finance Minister, and control is exercised through an official committee. In addition, the Finance Minister may annul any decision of the General Meeting or Administrative Council which he considers contrary to the laws and statutes, acting on his own initiative or on the report of a government official designated by him to attend the meetings of these bodies. A number of Continental bank charters, of which Austria, Hungary, Holland and Denmark furnish examples, provide for the appointment of a Government or Royal Commissioner with supervisory powers. A similar arrangement is proposed in the draft Statutes of the Bank of Greece. In some cases the appointment of the State Commissioner is made by the Crown or President, and though no doubt the choice is made on the advice of the Government, this fact gives the office a character somewhat different from that of a political appointment. The duties of the Government Commissioner are generally limited to seeing that the Bank's business is carried on in accordance with the Law and Statutes of the Bank. On any disputed point the Commissioner has a suspensory veto until the matter is settled by agreement between the Bank and the Government, or, failing that, by arbitration. But so long as the Bank is not acting *ultra vires*, the Government has no right of intervention.

In the Statutes of the Bank of Copenhagen it is provided that when the managers wish to change the rate of discount, they must notify the Finance Ministry. The Minister is entitled to participate personally or by deputy in the discussion without being entitled to vote on the decision. Further, it is laid down that no order from the Government shall ever directly or indirectly interfere with the Bank's

management. The Royal Bank Commissioner presides at meetings of Directors but he has no vote, and it is provided expressly that he shall take no part in the daily administration of the Bank. His right of formal intervention is restricted to cases where action is being undertaken by the managers which, in his opinion, violates "the Bank charter and the Acts or its regulations". In all the above cases the rôle of the State Commissioner resembles that of a continuing audit of the Bank's administrative proceedings, and is harmonised with the requirement that, subject to due observance of legal obligations, the Bank should be independent of State intervention or control in its day-to-day conduct of business.

In Poland the arrangements for safeguarding the position are somewhat more elaborate. The President of the Bank, who is appointed by the President of the Republic, has a right of suspensory veto in respect of decisions of the Bank Council which are, in his opinion, contrary to the laws of the country, the Articles of Association of the Bank, or the interests of the State. On his exercising this right of veto the question is referred to the Finance Minister, and the contemplated action is not carried out if the veto of the President is endorsed by the Finance Minister within three days. The weight of responsibility is thus placed, as it should be, on the head of the Bank who, by the procedure laid down, has in effect a qualified power of overruling his colleagues on the Council. At the same time, in order to maintain contact with the Bank, the Minister of Finance has the right to appoint a delegate who may attend meetings of the Council and the Board of Directors in an advisory capacity and may demand information. It is to be noted that the official delegate has no legal power of intervention, and that his rôle is constitutionally one of liaison. In the event of a dispute arising between the Government and the Bank out of the application of the Articles of Association, the question is referred to a Committee of Arbitrators.

In Czechoslovakia the powers of the Government Commissioner who is chosen from the officials of the Finance

Ministry are of wider scope than in the countries quoted above, and "it is his duty to oppose any resolution" of the "organs of the Bank if they conflict with the laws, statutes or State interests", and he has in law the same right of suspensory veto when the Bank is acting in conflict with the interests of the State as when it is acting contrary to its Statutes. In both instances, failing agreement between the Bank and the Government, the matter must be referred to a committee of arbitration consisting of two representatives of the Bank and two of the Government, with an outside Chairman. Government control over the Bank is even greater in Japan, where Comptrollers acting under the direction of the Finance Minister supervise all matters connected with the operations of the Bank of Japan. Wide powers of intervention are reserved to the Government, and the decisions of the Administrative Board are in various important instances subject to Government approval before they become effective. The by-laws of the Bank provide that "the Government shall control all the operations of the Bank and shall prevent not only any operation which conflicts with the Act and by-laws but also any measure that the Government may deem disadvantageous to the State". Such extensive powers as are allowed to the Government of Czechoslovakia and still more to the Government of Japan are open to criticism, as there is a danger that they may lead to the introduction of purely political considerations in the administration of the Bank. It is true that action can only be taken by the Government when the Bank is deemed to be acting contrary to the interests of the State, but a Government is apt to consider that State interests and political interests are synonymous terms, a point of view with which no student of politics or history is likely to agree.

The position of the Bank of Norway is peculiar. It has the status of a private joint-stock company, but this fact has little influence as the shareholders have no control over the administration. This rests with a Board of Directors and a Supervisory Council of which all the members are

appointed by the Crown or the Storting. The Bank must submit an annual report to the Storting and present all the accounts and books to the inspection of that body. The State, moreover, holds a large part of the capital of the Bank. The position of the Bank is thus in some respects more closely allied to that of certain of the State Banks than to that of the independent Banks, but in practice the management is not subordinate to the Government.

[The temptation to the State to intervene in the affairs of the Central Bank is diminished if the accommodation which the Bank may give to the State is limited.] Thus, while the Austrian and Hungarian statutes permit the National Bank to discount the bills drawn by the State commercial undertakings, managed as independent enterprises, it is provided that the Government may not have recourse to the Bank unless they pay the equivalent in gold or in foreign drafts. In Germany the Reichsbank is allowed to make loans to the Government for short periods and to a limited amount, but at the end of the business year the Reich must not be indebted to the Bank. In Holland the Bank is bound, on the request of the Ministry of Finance, to advance money free of interest to the State in their current account against Treasury bills, but the total of such loans is not to exceed 15 million gulden. In the new statutes of the Bank of Estonia it is laid down that the Bank may "make temporary advances to the Government for expenditure authorised in the annual State Budget, provided that the whole of the advances outstanding at any time does not exceed one-sixth of the estimated revenue of the year, and that all advances are repaid not later than at the end of the quarter following the close of the fiscal year in respect of which the advances were made". Restrictions on these lines exist also in Bulgaria, where the capital of the Bank has been provided by the State. The Bank of Bulgaria may advance an amount not exceeding 4700 million leva and discount Treasury bonds of six months' maturity up to a total of 300 million leva, repayable by the State before the end of the first six months of the following

financial year. The rate of interest on these advances may not be less than 5 per cent. No other advances may be made either directly or indirectly to the State. Similarly in the case of Czechoslovakia, although the State has larger powers of intervention with the Central Bank than are generally granted by modern charters, the credit which the Bank may grant to the Government is strictly defined by the Act. It may discount for the Government, customs and tax bills and bills for certified tobacco, salt and mineral products, that is to say it may give temporary accommodation on definite security of the State monopolies. On the other hand, neither the State nor State offices and institutions can be granted loans by the Bank on State Bonds. The draft charter of the Bank of Greece limits the amount of temporary advances to the Government to 400 million drachmas, and requires that all advances shall be repaid within three months of the close of the fiscal year in which they are made.

and It must be admitted, in view of the history of war finance in all countries, that such regulations are likely to be overridden in times of national crisis, whilst, on the other hand, the wild piling up of Government indebtedness to the Bank is impossible as long as the country is determined to avoid currency inflation and remain on a gold basis. It might seem, therefore, as if these clauses were unimportant in normal, and useless in abnormal, times, and this may be true of the countries which have a well-established tradition of sound public finance. But in other instances, especially in the countries which have only recently re-established their financial and currency systems, it is of first-rate importance that it should be made as difficult as possible for the Governments to resort to the expedient of borrowing from the Bank, a practice which, if continued, can only lead to a repetition of past disasters. At least, such clauses indicate a standard of wise finance, the formal recognition of which is likely to have some influence, and the provisions carry the safeguard that if there is a question of increasing the amount of the State credits, the matter must be brought before the

Legislature and cannot legally be effected by mere pressure on the Bank. Moreover, the existence of restrictions on Government borrowing from the Bank strengthens the hand of that body in exerting influence on the Government to pursue a policy of financial prudence. The offer of wise counsels in such matters is one of the important services that a strong Central Bank can render to the nation, but such services can only be looked for when the Bank's independence is fully safeguarded by law and practice.

Duties of the Central Bank towards the State

The duties which the Central Bank carries out for the Government are defined by the Bank charters. They manage the Government accounts and the business connected with the National Debt and act as fiscal agents for the Government, generally without specific remuneration. The custody of the Government deposits is an important factor, as giving the Central Bank control, ordinarily free of interest,¹ of large sums which, like the deposits of the joint stock banks, form part of the working assets of the Bank.

From the administrative point of view the advantages of concentrating the banking requirements of the State at the Central Bank may be illustrated from the history of the United States. Experience there before the introduction of the Federal Reserve system is sufficient to demonstrate the difficulties which arise from the lack of a recognised Government bank. There were over 1500 National banks in the United States which were qualified to act as depositories of Government funds in addition to the nine Sub-Treasuries.² Inevitably, the paying in or withdrawal of large sums on Government account to or from local banks,

¹ In Switzerland interest may be paid on deposits on current account of the Government and State controlled establishments. The Estonian Bank Act and the draft charter of the Bank of Greece permit the Bank to pay interest on Government funds held abroad at a rate lower by at least one per cent than the average rate earned by the Bank on such funds.

² Prof. E. W. Kemmerer, *The ABC of the Federal Reserve System*, p. 25.

materially influenced the conditions in the local money market, as the banks found themselves either able to expand or forced to contract credit, with consequential fluctuations in rates of discount and prices of securities. The suitable apportionment of Government funds between the different depositories was thus a difficult matter, and the Secretary of the Treasury found himself in a position in which his decisions on recurring administrative problems had important reactions in many different centres. Moreover, the reaction on the administration of the banks themselves was definitely unhealthy, since in times of financial stringency they could appeal to the Secretary of the Treasury for increased deposits to tide them over their difficulties, and they tended to rely on State aid given in this form instead of on a wise policy on their own part.

The Federal Reserve Act did not attempt to abolish this system immediately. It merely empowered the Government to deposit its funds with the newly formed Federal Reserve Banks without forbidding the continuance of the former practice. The tendency in the first years of the working of the Act was, however, definitely towards depositing the Government funds more and more with the Federal Reserve Banks in the place of the other qualified banks. The entry of America into the war interrupted this process, as it was dangerous in such abnormal circumstances to withdraw accustomed support from the depository banks. Nevertheless, the Federal Reserve Banks played an important part at this juncture. The apportionment of the funds between the depository banks was determined by them on the basis of their local knowledge, and they were responsible for the carrying out of the various devices adopted to avoid the upsetting of the money market by the enormous sums that were both collected and disbursed on Government account. In his report of 1918 the Secretary of the Treasury stated that "the Federal Reserve system has been of incalculable value during this period of war financing on the most extensive scale ever undertaken by any nation in the history of the world. It would have been impossible to

carry through these unprecedented financial operations under our old banking system." Thus the existence of a Central Banking system which provided the Government with a recognised financial agency has proved to be essential when the Government of the country is faced with financial problems of the first magnitude.

A further point remains to be considered in connection with the relations of the Bank and the State. A Central Bank, as the note-issuing organisation for the country, is given a profitable concession of a public nature. It is therefore fitting that a part of the profits it makes should go to the State. As a result, in nearly every Bank charter regulations are found by which part of the profits, after payment of a limited or graduated dividend to the shareholders and certain specified sums to reserve funds, are made over to the Government. In such cases the Bank may be exempt from the usual forms of taxation.¹ Apart from the graduated tax on deficiencies in the reserve (which is not a tax in the ordinary sense), the Reichsbank is free from all Corporation, income and trade taxes, and the draft charter of the Bank of Greece similarly exempts the Bank from all taxes or duties levied by the State. Certain privileges are also given by Austria, Hungary and a number of other countries. There is obviously an almost infinite variety of ways in which the Central Bank may be made to contribute its fair share to the State Exchequer in return for the privileges it enjoys. In England where the State takes no share in the general profits of the Bank, the Bank of England while exempted from stamp duty on its notes makes certain statutory payments in consideration of its privileges of note issue. Thus, in the Finance Accounts of 1925-26 the sum of £206,231 appears as the amount payable to the British Treasury by the Bank of England out of the profits of issue for the year ending 5th April, 1925.² In the case of the

¹ See *infra*, pp. 33, 34.

² See also pages 16 and 203 of *Interviews on the Banking and Currency Systems of England, Scotland, etc.* (United States Senate Document, No. 405, 1910).

Bank of France, the State levies an annual stamp tax on a certain part of its note circulation, in addition to various other specific contributions, and for a considerable period before the war one-third of the net earnings of the Bank were paid to the Government.¹ Since 1918 the Bank has been under an obligation, whenever it pays an annual net dividend in excess of francs 240 per share, to contribute to the State an amount equivalent to the net excess distributed. In England and France, as in other countries, the pecuniary nexus between the Government and the Bank covers a far wider field than the note circulation. The French Government, in particular, derives a large benefit from substantial advances made by the Bank to the Treasury on which either no interest or only a low interest rate is paid.

The payments to the State of a share in the Central Bank's profits has of course a deeper significance than a mere *quid pro quo* for privileges received. It is an important method for limiting the dividends of the Bank with a view to ensuring that it should not be lured into unsound financial activities by the hope of large rewards. The limitation of dividends is discussed more fully in Chapter III., which exhibits various typical methods by which the profits of a Central Bank may be shared between the State and the Bank.

¹ Senator Aldrich, *The Work of the National Monetary Commission*, National Monetary Commission, vol. xx. p. 12 (Senate Document, 406, 1911).

CHAPTER III

CAPITAL—DISTRIBUTION OF PROFITS—RESERVE FUNDS—LIQUIDATION

Capital

APART from supplying the means of acquiring premises and equipment for the purpose of its business, the functions performed by the capital of a Central Bank are twofold. In the first place it gives confidence to the depositors and note holders. The public would not willingly entrust its money to, and accept the promises to pay of, a newly established bank that had not sufficient resources behind it. The capital provides a fund on which, in the event of losses on its operations, the Bank may draw towards meeting the claims of its creditors. Secondly, it provides a fund for the carrying out of operations in the money market, thereby strengthening the position of the Bank. For these reasons a Central Bank must be adequately supplied with capital. On the other hand it is undesirable that the Bank's capital should be excessive, as for reasons of security discussed elsewhere the manner of its employment is restricted, and if there should be an insufficiency of short term bills and suitable paper, the surplus capital might be difficult to employ in appropriate channels, and might to an undue extent lie idle. This might lead to the Bank's being burdened in the end with overheavy dividend charges. Alternatively, there might be a temptation to the Bank in order to provide the dividends for shareholders to employ the surplus capital in directions which it would be better for a Central Bank to avoid. It is necessary, therefore, to limit the capital of a

Central Bank. The Royal Commission on Indian Currency and Finance (1925-26), which considered this question with the object of establishing a Reserve Bank in India, state "There is no need, nor is it in fact desirable, that a Central Bank should be endowed with any very great amount of capital".

In most cases the capital of the Central Bank is fixed by the charter, though in some instances it can be increased within certain narrow limits and under prescribed conditions. Thus, in Chile the capital may be increased from 150,000,000 to 200,000,000 pesos by an affirmative vote of eight of the ten directors of the Bank, and with the consent of the President of the Republic. In view of the foregoing considerations, it is usual, if an increase in the Central Bank's capital is allowed, to provide, as in the above case, that it should require the consent of the Government or the Legislature. This is laid down, for example, in the charters governing the Central Banks of Austria, Hungary, Poland and South Africa. The premium obtained on any fresh issue of capital should properly, as required in the case of the Reichsbank and the South African Reserve Bank, be added to the Bank's reserve fund. In the event of the Bank's capital proving larger than required, a reduction may be allowed with the consent of the Government. The amounts of capital in the case of each bank will be found in the charters summarised in Appendix I. It is not possible to discuss here the adequacy of the sums provided on general grounds, since that can only be judged with reference to the conditions in each country.

If the Central Bank is to be independent of the Government it is desirable to exclude the State from any general ground of intervention in its affairs such as would result if the State made any material subscription towards its capital. The most satisfactory course, therefore, is that the stock should all be privately held. The majority of the more important European Banks are accordingly Joint-Stock Companies, with the capital held by the general public. Where, however, the State has any considerable measure of

real control over the Bank, as distinct from mere supervision on legal points, it naturally occurs that it should subscribe towards the capital of the Bank, as in that case this is consistent with the part that the Government takes in the conduct of the concern. Thus, in Czechoslovakia one-third of the capital of the Bank is held by the State, while in Japan the State may by law hold up to one-half of the capital, though actually none of the capital is so held at the present time. In these countries it will be remembered that the State has unusual powers of control over the Administration of the Bank.¹ In some circumstances it may be necessary that the shares of the Bank should be held by the State for a time, either in whole or in part, as in the case of Estonia. Under the recent constitution it is contemplated that the shares held at the outset by the State should be sold to the public when the new statutes have been in operation two years. When this has been done the Bank will fall into line with the general scheme of Central Banking that has been laid down by the League of Nations in the case of other countries.

If the Bank is purely a State institution, the capital is naturally held entirely by the State and there are no shareholders, as, for example, in Latvia and Finland. The history of the Riksbank of Sweden has been peculiar in this respect. When the Bank was founded in the seventeenth century it possessed no capital of its own, but certain definite State receipts were made over to it. The lack of capital, however, rendered it financially weak and it was consequently unable, on several occasions, to meet the obligations on its notes. As a result it was decided in 1830 that the yearly surplus, after certain specified payments to the State had been made, should be set aside to build up a capital and reserve fund. The accumulation proceeded throughout the century and was finally fixed at 50 million Kroner by the Bank Act of 1897. In Australia £4 million of the capital of the Commonwealth Bank was provided from the existing Bank Reserve and Redemption Funds, while an amount,

¹ See *supra*, Chapter II. pp. 32, 33.

up to a maximum of £10 million may be obtained by the issue of debentures, though no such issue has been made yet. The issue of debentures by a Central Bank is unusual and raises peculiar problems. If the debentures are to have their normal significance the claims of the holders would, presumably, have priority over all other claims, including those of depositors and note holders, and this arrangement would obviously be unsuitable, unless the customers of the Bank were assured in some other way that their claims would not be relegated to the second place in the event of any failure on the part of the Bank to meet all its liabilities. Consequently, it is only in a country such as Australia where the Bank of Issue functions under a Government guarantee that working funds could with any show of propriety be raised by means of the issue of debentures.

Where the Central Bank is organised on the Federal Reserve plan the subscription of capital by the member banks is a central feature of the scheme. If the member banks are numerous and wealthy enough, a moderate assessment on their resources may supply sufficient capital to meet the needs of the Central Bank, and in the United States the capital of the Federal Reserve Banks is supplied entirely by the 6 per cent assessment on the capital and surplus of the member banks, though the admission of public and, if necessary, State subscriptions¹ was provided for in the Federal Reserve Act in the event of an insufficiency of subscriptions on the part of the member banks. The situation is, however, different in the case of the South American countries, which have adapted the United States system to their requirements. In Colombia it was found that the maximum levy that it was considered desirable to impose on the member banks, namely 15 per cent, would only have produced one-third of the capital deemed necessary for the Bank of the Republic. The balance has been provided by the State and not by public subscription. In the case

¹ The prescription of the Act was that shares acquired by the State should be subsequently sold.

of Chile the initial capital of the Bank has been provided jointly by the Government, the commercial banks (domestic and foreign) and by the public. In this case the contribution of the banks was assessed at 10 per cent of their paid-up capitals and surpluses.

On the general question whether it is preferable that the commercial banks as such should become stockholders in the Reserve Bank, instead of the whole of the stock being offered to the general public, it may be said that anything which tends to impair the breadth and unity of the interests participating in the Reserve Bank is to be deprecated. If blocks of shares are held by the commercial banks the probability is that this will carry the right to nominate or elect one or more Directors. There is some risk that Directors representing special bodies may incline to regard themselves as peculiarly charged with watching over and safeguarding the interests of those bodies and that the Board may as a result tend to divide into groups. Such a tendency is undesirable as the maintenance of a sound credit policy demands a united impulse from the central board. The relation of the Central Bank to the commercial banks, however, raises wider questions which are considered more fully in Chapter VI.

The point arises as to whether, in the case of a Central Bank organised on the company pattern, the capital should be in the form of a security fully or partly paid up. In the case of commercial banks the object of leaving part of the capital subject to call, as is not uncommon, is to provide additional security for the depositors. How far, in a crisis involving a call on the unpaid capital of a large commercial bank, it would in practice be possible to obtain payments on a substantial scale need not be discussed. But it would seem that in such a crisis as would entail similar action on the part of a Central Bank, the prospects of making the call effective would be remote in the extreme. So far as this is the case the idea that the uncalled capital constitutes a true reserve is illusory. In the case of a Central Bank the safety of the deposits is cared for otherwise. First, there

is ordinarily a close restriction on the business open to a Central Bank, which is only permitted to engage in operations of the least risky type. Secondly, there are usually legal provisions regarding the accumulation of reserves altogether apart from any action that the Bank may spontaneously undertake in the matter of the creation of special or extra-statutory reserves. For these reasons there is no need to issue the capital of a Central Bank in a shape that carries a liability to those who take it up, and as the Central Bank is a national institution it is desirable that there should be no impediment against its stock or shares being held by any member of the community. In the case of a commercial bank there is no limitation of dividend, and the risk of a call in respect of a partly paid share may be compensated by the return. This argument does not apply in the case of a Central Bank, where the dividend is subject to legal restriction. In the circumstances, it is natural that in the case of Central Banks the capital is ordinarily issued in a form that carries no further liability, and as a minimum return on the security is virtually assured under the charter, the stock or shares of a Central Bank deservedly rank among the most eligible investments in a country. Noteworthy exceptions to the general rule are provided by the Federal Reserve Banks of the United States where only one-half of the capital has so far been called. Member Banks may be required to pay up the balance or part thereof at any time when deemed necessary by the Federal Reserve Board. In the case of Switzerland, only half the Bank's authorised capital of fcs. 50,000,000 and in Italy three-fourths of the capital of lire 240,000,000 of the Bank of Italy has been paid up.

Distribution of Profits—Reserve Funds

In the case of a Central Bank, as in other banks, the profits on the year's operations should be arrived at after bringing to account all working expenses, and "after making provision for bad and doubtful debts, depreciation in assets, superannuation of staff and all such items as are

usually provided for by bankers" (*vide* Law regulating Reserve Bank of South Africa, Clause 11). The net profits have then to be distributed between reserve funds, remuneration of capital and the State.

The objects for which reserve funds are maintained by Central Banks are the same as with ordinary commercial concerns, but because the subject-matter with which Central Banks have to deal is more important and the consequences of a breakdown more serious, so is the maintenance of adequate reserves more essential. In many cases the purposes are definitely stated in the charters. In the case of the Netherlands Bank the reserves are "to make good any losses on the authorised capital". In Austria it is put more generally as "to cover losses or amounts written off of any kind". In the case of the Bank of Poland the reserve is intended to cover losses and amortisations which cannot be covered out of profits, and for making good any deficiency of dividends so as to bring them up to 4 per cent. The reserve fund in effect serves very much the same function as the Bank's capital in affording protection to depositors and note holders; the capital and reserve must all be consumed before any loss can fall upon them. To the stockholder in the Bank the reserve affords protection to his capital, as the above citation from the charter of the Netherlands Bank specifies. As security is one of the watchwords of Central Banking, it is not surprising that the charters give careful attention to the accumulation of reserve funds.

There is not, nor can there be, any uniform rule as to the amount to which reserves should be created. This must depend on the amount of the capital, the nature of the Bank's business and on such questions as whether the business is progressive in volume or not. If the Bank's ordinary business liabilities increase continuously, it is reasonable that the capital should increase too, and one way of achieving this is by creating additional reserves. Speaking generally the charters provide for liberal accretions to the reserves, and there is a noteworthy tendency on the

part of the more newly created Banks to prescribe higher reserves than was done in the case of some of the older foundations. The Federal Reserve Banks aim at building up reserves equal to the subscribed capital before the diversion of any part of the profits to the Government, and even then 10 per cent of any balance left after paying the normal 6 per cent dividend is credited to surplus. The South African Reserve Bank and the Bank of Chile provide for the accumulation of reserves up to the amount of the capital of the Bank. In the case of the Central Banks in Poland and Czechoslovakia the proportion for the reserve is 50 per cent of the capital. In Holland the statutes provide that when an amount representing 25 per cent of the capital stands to the credit of the reserve fund the appropriations from profits cease. Nevertheless, the Bank in October 1927 held total reserve funds equivalent to three-quarters of its capital, and it may be taken generally that the Banks may and do create special reserves as they think fit in addition to those prescribed by statute.

If the capital of the Bank is adequate at the outset, the strengthening of the position by the building up of reserves on the scales discussed above should in any ordinary circumstances establish the solidity of the Bank beyond all question. If the initial capital is on a large scale, there would be *pro tanto* less need, from the point of view of the depositors, for raising the reserves in the high proportions just cited. The Bank of England with its exceptionally big capital of £14,553,000 has a published "Rest" which is never reduced below £3,000,000, but there is reason to think that this figure by no means represents all that the Bank maintains by way of reserve funds.

If the capital, or any part of it, is raised by public subscription or by assessment on other banks, it is essential that the Bank should be allowed to pay an appropriate dividend, and it is important for the Bank's credit as a public institution that the investors should be given as firm a guarantee as possible that this dividend will be forthcoming. Consequently, most of the Bank charters

have ~~fixed~~ a minimum dividend which, if it cannot be paid out of the year's earnings, can be made up out of its reserve funds. Where the Bank is not empowered to use the reserve funds for this purpose, the dividend may be treated as a cumulative claim on the profits of the following years. This is the case in the United States of America and Germany.

While it is desirable to ensure the payment of a moderate rate of interest to the shareholders, it is essential that the earning of dividends should not be made the prime consideration. The activities of a Central Bank have such far-reaching effects on the economic welfare of the whole nation that no inducement must be allowed to divert the Bank from the pursuit of the public interest with the object of earning increased profits.¹

Apart from those cases, mainly among the old-established Central Banks, where the State obtains a share in the profits by a tax on the note issue or by appropriating part of the profits on the fiduciary issue,² there are two methods by which the desired result can be achieved. The maximum interest which may be paid to the shareholders may be rigidly fixed, or the shareholders may be allowed to participate in any increase in the profits of the bank, but to an extent which decreases as the net profits rise. If the decline

¹ Cf. Report of Select Committee on Commercial Distress, 1848: "An opinion seems to have been entertained by some persons, though not by the Governor or Deputy Governor of the Bank of England, that the Bank is released by the Act of 1844 from any obligation except that of consulting the pecuniary interests of its proprietors. It is true that there are no restrictions imposed by law upon the discretion of the Bank in respect to the conduct of the banking, as distinguished from the issue department. But the Bank is a public institution possessed of special and exclusive privileges, standing in a peculiar relation to the Government, and exercising from the magnitude of its resources great influence over the general mercantile and monetary transactions of the country. These circumstances impose upon the Bank the duty of a consideration of the public interest, not indeed enacted or defined by law, but which Parliament in its various transactions with the Bank has always recognised and which the Bank has never disclaimed" (quoted in Cobb, *Threadneedle Street*, 1891, p. 10).

² See *supra*, pp. 38, 39.

in the percentage of net earnings paid to the shareholders is steeply enough graded, this latter method is sufficient to ensure that profit-making shall not be made the chief aim of the Bank's policy. In either case the percentage which must be paid into the reserve fund is fixed. The accumulation of a reserve fund beyond a certain limit is, however, wasteful, and might even be embarrassing. But if it is considered desirable to increase neither the shareholders' interest nor the payments to reserves indefinitely, some other means of disposing of the surplus must be found. It is here that the claims of the State come in. The question of the State's share in the profits of the Bank have already been referred to in Chapter II. In one sense it may be regarded as payment from the Bank in return for the privilege of note issue, but it is also the logical conclusion of the policy of limiting shareholders' profits.

The countries in which the interest payable to the shareholders is put at an absolutely fixed figure are few. The United States of America is the salient example of this. The stockholders of the Federal Reserve Banks, that is, the member Banks, are entitled to a dividend of 6 per cent, which dividend, as previously stated, is cumulative. The balance of the net profits is paid into the reserve fund until that equals 100 per cent of the subscribed capital of the Bank. Thereafter 10 per cent of the profits over and above the stockholders' share is paid into the reserve fund, and the whole of the balance is to be paid to the United States as a franchise tax. Four of the Federal Reserve Banks have already built up reserves, equal to, or in excess of, their subscribed capital, and in 1926 they paid to the Government a sum of approximately \$800,000 which represented the balance of their profits.¹ A variant of this principle, which borrows something from the method referred to in the following paragraph, is exemplified by the charter of the South African Reserve Bank. Here provision is made for a cumulative dividend of 6 per cent, which may be raised

¹ *Thirteenth Annual Report of the Federal Reserve Board*. 1926. p. 21.

to a maximum of 10 per cent, but any surplus on a year's working that remains after building up the reserve to the amount of the paid-up capital and providing a 10 per cent dividend to the shareholders, goes to the State.

The alternative policy of graduating the interest payable to shareholders without prescribing an absolute limit has been adopted in some cases. Thus, in Germany, for example, 20 per cent of the net profits must be paid to the reserve fund as long as this is less than 12 per cent of the notes in circulation. The next claim on the profits is a dividend of 8 per cent to be paid to the shareholders. Any excess over this amount is to be divided as follows: of the first 50,000,000 Reichsmarks half goes to the State and half to the shareholders; of the next 50,000,000, 75 per cent is paid to the State and 25 per cent to the shareholders; finally, of any profits in excess of these amounts the shareholders receive only 10 per cent, whilst the remainder goes to the State.

Regulations on the above lines are found in practically every Bank charter. The Bank of England is, as previously indicated, an exception, but here, as in other respects, it adheres voluntarily to a line of action which has been laid down by law for the newer banks, and a change in its rates of dividend has the rarity of a sensation. The arrangements introduced as from 1918 in the case of the Bank of France have been referred to on p. 39.

In a few cases some method of profit-sharing has been introduced into the constitution of the Bank. Thus in Holland, the Bank has the first claim on profits up to $3\frac{1}{2}$ per cent on the capital; then, after making due provision for the reserve fund, 3 per cent or $3\frac{1}{2}$ per cent of the remainder is paid as a bonus to the Management, Advisory Committee and Commissioners. In Lithuania, after 10 per cent of the net profit has been assigned to reserve and 8 per cent to the shareholders, 8 per cent of the remainder is paid to the Board of Directors and 2 per cent to the members of the Advisory Board. Such arrangements are unquestionably open to criticism. If it

is admitted that profit making should be a wholly subsidiary consideration for a Central Bank it is undesirable that the Directorate should be given a direct pecuniary interest in the making of large profits. The grant of remuneration by way of commission or share of profits is expressly prohibited in the draft charter of the Bank of Greece.

Liquidation

A Central Bank is intended to be a permanent institution, and whatever advances there may be in monetary science hereafter, there seems no reason for thinking that any better mechanism for controlling the currency will be invented than a Central Bank. Improvements in technique will doubtless be made from time to time, and the form of the charters may be gradually perfected in the light of experience. The relations between the Government and the Central Bank are such that recognised improvements can be introduced at any time by agreement, but in most cases the renewals of charters on the expiry of the terms for which they are granted give the Government the necessary opportunities for revision and development. So far as the shareholders of the Bank are concerned, the right to issue notes and the holding of the balances of the Government and the other banks are valuable privileges which they will wish to conserve. It may therefore be assumed that only if something extraordinary had occurred in the relations between Bank and State would the Bank wish to surrender its charter on expiry instead of seeking its renewal.

Though the expectation is that the charters of Central Banks will be extended with or without modification on expiry, provision has to be made for the alternative that the State may wish to make other arrangements, or that the Bank may not desire to continue its functions. These appear unlikely events: still, they are not inconceivable. Further, there is the possibility that mismanagement might result in a failure of the Bank to redeem notes in the

manner prescribed and so entail the forfeiture of its privileges.¹ Some charters, for example those of the Banks of Belgium, Japan and Lithuania, provide that the loss of half its capital should involve the liquidation of the Bank. Such losses would indicate that something serious was amiss, and fully justify the adoption of stern measures in the public interest.

For reasons of the kind suggested, most of the charters of Central Banks deal definitely with the question of liquidation. An important consideration is that the Bank should not be able to go into liquidation without giving the State due notice, so that it may be able to make appropriate arrangements for the discharge of the duty of controlling the currency on the surrender of this task by the Bank. The charter of the National Bank of Austria, for example, provides that three years before the expiration of the privilege the General Meeting shall discuss and resolve whether application shall be made for a renewal of the privilege. If the Bank decides to apply for a further prolongation of the privilege, it must lodge the application with the Government at least two years before the expiration of the privilege. This gives the Government time to consider the terms on which the charter should be extended, and to complete the necessary negotiations with the Bank, assuming that the State desires to maintain the general scheme of currency control through the Bank. The Bank may also be liquidated before the expiration of the privilege with the consent of the Legislature. This consent is not, however, required if the Bank desires to liquidate owing to infringement by the Government of one of the fundamental obligations laid down regarding the establishment of a Bank of Issue or provided in the Statutes. There should, of course, be no question of such a contingency in practice. A decision by the Bank to liquidate requires the support of three-quarters of the votes represented at an Extraordinary General Meeting summoned with due notice for the purpose. The Government is, with the sanction of the Legislature,

¹ See *infra*, p. 98.

entitled in the event of the expiration of the privilege, or of the loss of the privilege (owing to failure by the Bank to redeem its notes as provided), or of liquidation before the expiry of the privilege, to take over the business of the Bank at its real value. In the case of the Reichsbank, the State, after the lapse of the Bank's right of issue, is entitled, subject to one year's notice, to dissolve the Bank and take over the premises. As regards the Bank, it is laid down that before going into liquidation it shall give notice to the Government in good time.

The exercise by a Central Bank of the right to go into voluntary liquidation when this was contrary to the will of the State might produce the gravest embarrassment. Yet a Bank which had accumulated large reserves might be tempted to exercise the right in certain circumstances in order to divide them among the shareholders. There seems, therefore, good reason for withholding the right of voluntary liquidation altogether. In the recent Charter of the National Bank of Bulgaria there is no provision enabling the Bank to dissolve or surrender the privilege granted to it without limitation of term. Generally speaking, the aim should be to secure that, except with the sanction of the Government, the Bank should not be allowed to dissolve, and that, if it should be decided to dissolve the Bank, the process should be carried out under State control, so that there may be the minimum dislocation of the national monetary economy. In the case of the United States, the Federal Reserve Board is authorised to suspend, for violation of the law, any Federal Reserve Bank, to administer it during suspension, and, when deemed advisable, to liquidate or reorganise it. The Currency and Banking Act of South Africa provides simply that "the Bank shall not be placed in voluntary or compulsory liquidation except on the authority of an Act of Parliament". In the event of liquidation the reserve funds and surplus assets, if any, are to be divided between the State and the stockholders in the proportion of 60 per cent and 40 per cent respectively. The reason for giving the State a share in these

assets is that in the case of a Bank of which the net earnings are divided between stockholders and State, reserve funds represent undivided profits and are not therefore to be regarded as due for return in their entirety to the stockholders.

CHAPTER IV

ADMINISTRATION OF CENTRAL BANKS

In determining the organisation of a Central Bank the main consideration must be to provide a constitution that will from its nature be directed towards the furtherance of the public interest. By public interest is meant the interest of the State and industry from the widest point of view, and not as interpreted by any particularist section, whether a political party or financial group. To ensure this result, the composition of the governing body should not be wholly left to the absolute decision of the shareholders, as is usual with an ordinary private company, and definite regulations should be laid down regarding the constitution of the Board. When the Board has been appointed, it must be free from detailed interference on the part of the Government, so that it may discharge its responsibilities without fear or prejudice. This involves the recognition by the Government that their intervention in the Bank's affairs should be confined to cases where its action infringes the terms of its charter. The shareholders' powers must also be exercised under conditions of restraint. They must recognise the Bank to be an organ of public policy and not an instrument of private advantage. Further, seeing that the maintenance of the currency and the care of the money market are national responsibilities, it is desirable to place the Bank under certain obligations to submit to supervision or audit, and to publish regular and up-to-date returns showing its condition. These returns should be such as to enable the public to satisfy

itself as to the soundness or otherwise of the Bank's policy. At the same time they will furnish material on which financial and commercial interests can base their programmes.

The actual manner in which different countries have given effect more or less completely to the principles briefly sketched above will be apparent from the summary of the laws and charters in Appendix I. In the following paragraphs attention is drawn to some of the more striking features of the schemes adopted.

Governing Body

The constitutions of the Central Banks range from those of the State Banks of which all the Directors derive their appointments from the Legislature or Executive to that of the Bank of England, which has no Government nominee on its Board. The position of the State-owned Banks has already been considered and need not be discussed further in the present context.

Where the Banks are private corporations the claims of national policy and of commerce for representation on the governing Board are in most cases harmonised by the Government's nominating one or more members of the Directorate, and by providing that the remaining members should be elected by the shareholders. This is the course adopted by France, the Netherlands, South Africa, Austria and various other countries. If it is recognised as a matter of principle, that the Board must not be subjected to interference by the State in the discharge of its ordinary business, and if the limits of the accommodation that may be given to the State are clearly defined, there should ordinarily be no need for any considerable representation of the Government as such on the Board, and it is desirable in any case, in order to remove grounds for any suggestion that bank policy may be directed by considerations of State finance, that the official element should be in the minority. This is the line generally adopted for those Banks that combine a nominated and

elected element on their governing Boards. Switzerland is exceptional in this respect, as the majority of the Council of the Bank are nominated by the Federal Council.

In nearly all cases, the Governor or President, and in some cases his Deputy also, are appointed by the Head of the State or the Government. This has a special significance owing to the importance attaching to the Governor's position which is emphasised in many charters. Ordinarily he presides at all meetings and directs the Bank's policy in general. In the French law of 1806 it was laid down that " la Direction de toutes les affaires de la Banque, déléguée à son comité central par la loi du 24 Germinal an XI, sera désormais exercée par un Gouverneur de la Banque de France ", and the law proceeds to define his special responsibilities. In Poland, as previously pointed out,¹ the President of the Bank has the right, pending reference to the Finance Minister, to suspend the carrying out of any decision if, in his opinion, it is contrary to the laws of the country, the statutes of the Bank or the interests of the State. A similar rule applies to the Governor of the Bank of Japan. Various Statutes also, for example those relating to the Banks of Czechoslovakia and Poland, provide that the Head of the Bank may not hold any other paid position, and in the latter case he may not be on the managing body of, or be a partner in, any business undertaking. This might perhaps seem an unnecessary precaution, when it is realised what a heavy charge devolves on the Governor of a Central Bank. It is a matter of public knowledge that the Governor of a Central Bank exercises a preponderant voice in shaping the general policy of the Bank. In certain cases he is required to take an oath of fidelity. Thus, as early as 1806, the French law provided that the Governor and Sub-Governors should pledge themselves " bien et fidèlement diriger les affaires de la Banque conformément aux lois et statuts ". This early precedent has been followed by, among other countries, Austria,

¹ See *supra*, p. 32.

Czechoslovakia and the Commonwealth of Australia, which require a solemn assurance also from the Directors in general.

The system of the United States of America, though constructed on special lines, relies also for its sound working on a blending of the nominated and elected element. Advocates of the independent Central Bank may consider that official influence on policy may be excessive on the part of a Federal Reserve Board comprising two officials, namely, the Secretary of the Treasury, the Comptroller of the Currency, and six members appointed by the President of the United States with the approval of the Senate. Here the elected element is introduced on the Boards of the Federal Reserve Banks where, of nine Directors, six are elected by the stock-holding banks. It is perhaps too early yet to form a final conclusion as to how far State and independent influences are suitably balanced in the United States system. It has been difficult on occasion to secure that banking policy should be kept aloof from considerations of domestic politics, and a tradition has still to be firmly established that, despite the strong governmental element on the controlling authority, banking policy should be solely decided by the consideration of national interests.¹ The case of the Reichsbank stands by itself. Here, as pointed out in Chapter II,² the circumstances in which the Bank was reorganised were exceptional and there is no provision for direct appointment of even the President of the Bank by the Government. In Chile there are three officially appointed Directors, but the Board itself elects the President and Vice-President, and may do so either from its own members or by importing them specially from outside. This provision was designed to widen the possible range of selection for this responsible office, which, to quote the Report on the Central Bank of Chile, requires in its holder "judgment, tact, broad economic

¹ Cf. H. Parker Willis, "Government Influence on American Banking," *The Banker*, October 1927.

² See *supra*, p. 19.

knowledge, initiative, energy and executive ability"—a formidable array of virtues indeed.

Whether an officially appointed element is included on the Board of the Central Bank or not, it is desirable to avoid, so far as may be, the presence on it of persons who have a special connection with government or politics, which might possibly influence, or be thought to influence, the impartiality of their judgment. A number of modern charters accordingly recognise that members of the Government or of the Legislature or State officials should be debarred from serving on the Board. Provisions bearing on this point are to be found in the Federal Reserve Act, and the constitutions of the Central Banks of Chile, Poland, Sweden and elsewhere. ✓ The Swiss law is exceptional in allowing the appointment of a limited number of members of the Federal Chambers and Cantonal Governments on the Council of the National Bank, but members of the Federal Assembly and Cantonal Governments may not sit on the central or local executive.

As the dealings of the Central Bank will be largely with the commercial banks, it is desirable to provide that the latter should not obtain control of central banking policy. The relations of the commercial banks with trade and industry may on occasion colour their views as to what the policy of the Central Bank should be. Clearly a policy that should be directed by national considerations ought not to be subordinated to the interests of the principal customers of the Central Bank. ✓ The practice of the Bank of England is to exclude from its Court directors of the joint-stock banks, bill discounters and bill brokers as such, and to be a Director or officer of a banking institution is a disqualification in the case, for example, of the board of the Commonwealth Bank of Australia, the South African Reserve Bank and the National Bank of Czechoslovakia. In such countries as the United States of America and Chile, where the commercial banks are stockholders in the reserve or central banks, the law definitely provides for a certain banking representation, and this is also the case in Spain. In all these instances the numbers of bankers serving on the

Board is restricted by the constitution. In the case of the Boards of the Federal Reserve Banks six out of nine directors are elected by the member banks, but not more than three of these may themselves be bankers. The charter of the Austrian National Bank similarly limits the maximum number of the directors of other banking concerns that may serve on its board to four out of a total of fourteen, including the Chairman. Apart from those disqualified by the restrictions on professional eligibility for the Board of a Central Bank or by such obvious considerations as loss of civil rights or personal discredit, all other persons may be appointed, except that as the Central Bank is a national institution it may be appropriately laid down, as is done in many cases, that only nationals are eligible for the office. Exceptions may be necessary in special cases, such as that of Chile, where one member of the Board of Directors is chosen to represent foreign banks. The peculiar circumstances attending the revision of the Constitution of the Reichsbank account for the provision that the General Council must include seven members of foreign nationality in addition to at least seven of German nationality.

There is some advantage in enacting, especially in countries where there is no established tradition, provisions which will ensure a wide range of experience on the Board of a Central Bank, seeing that the Bank will have to direct its policy on a comprehensive view of the conditions prevailing in finance and industry from time to time. Thus, the charter of the Reserve Bank of South Africa lays down that of the six elected members of the Board three should be men who have been or are actively engaged in commerce and finance, one in agriculture and two in industry. The law regulating the National Bank of Austria also aims definitely at the representation of a variety of special interests, providing for the submission to the shareholders of names representing banking, industry, trade, agriculture and labour. In this case, three names are obtained from the "representative organs of the professions concerned",

and the shareholders elect from lists so prepared. The constitution of the National Bank of Belgium similarly contains provisions for the appointment to the Administrative Council of representatives of special bodies, namely, the Council of Industry and Commerce (Conseil supérieur de l'industrie et du commerce), Council of Trades and Commerce (Conseil supérieur des métiers et négoce), the Trade Council (Conseil supérieur du travail) and the Council of Agriculture (Conseil supérieur de l'agriculture). The statutes of the National Bank of Bulgaria provide for the appointment to the Council of Administration of four representatives of commercial, financial and agricultural interests. In Chile one Director is appointed jointly by the National Agricultural Society and the Society for Encouragement of Manufacturers, one by the Association of Nitrate Producers and General Chamber of Commerce, acting jointly, and one by the General Board of the Federation of Labour. The appointment of individual members of the Board by special interests, such as commercial banks, manufacturing or agricultural associations, carries the risk of introducing sectional influences on the Board. Representatives elected by special bodies necessarily have to look to these bodies for re-election and may be drawn unconsciously into regarding questions of credit policy from the point of view of its effects on the special interests they represent rather than from that of the country as a whole. On the other hand, the special knowledge which presumably such representatives will possess may be of real value to the Board, but this is equally well secured if it is laid down that the directors must include persons possessing such special knowledge while entrusting their election to the shareholders, as is done in the case of South Africa. Their responsibility is then to the shareholders and not to any special body identified with particular interests.

When the Board is constituted, the question of procedure ✓ remains to be decided. In some cases the charters, for example, those of the National Banks of Belgium and Hungary provide for an executive committee, including the

Governor. At the Bank of England much important work is understood to be carried out by the Treasury Committee, including the Governor and Deputy-Governor for the time being. This is a matter of domestic organisation to be settled by each bank in the light of its own requirements and does not necessarily require special treatment in the charter. In the case of Banks with large Boards, there is an obvious convenience in the creation of a smaller organ for the discharge of certain duties, subject, of course, to the general responsibility of the Board as a whole. The Board will make arrangements for the necessary staff, appointing the Managers and laying down rules for pay and pensions and organising the interior economy of the Bank.

Powers of Shareholders

Where the Central Bank is organised on the general lines of a private corporation the rights of the shareholders cannot be ignored. The aim should be to give them certain powers of supervision, but to provide that these powers should not be too great. In particular it is desirable to ensure that the policy of the bank should not be conducted from the point of view of shareholders' profits, and that no particular group of shareholders should be able to establish predominant control. In Chile and Colombia the law goes so far as to state that the stock of the Bank shall carry with it no right to intervene in the administration of the Bank, but only to elect the members of the Board. So stringent a limitation of the shareholders' responsibilities is not found, except in cases where the shareholders are in the main the commercial banks.¹ In other cases it is desirable to preserve in principle the responsibility of directors to shareholders, consonant with an organisation framed on the pattern of a commercial corporation. Normally, therefore, in view of the different safeguards provided in the constitution of the Bank for the protection of the public interest, the business of the shareholders' meeting, which is held at least once a year (*e.g.*

¹ For the exceptional case of Norway see p. 33.

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Austria and France) or twice (*e.g.* Bank of England and Japan), is allowed to cover the following matters :

The election of Directors.

The receipt of the Directors' report and the Auditors' report.

The approval of the balance sheet.

The appropriation of profits, subject to the conditions prescribed in the law or Statutes.

The submission of proposals for change in the by-laws, subject to the general provisions of the law.

In certain statutes, for example those of the Netherlands Bank and the Bank of Lithuania, provision is made for the election by the shareholders of a small advisory Committee to confer with the Board of Management or to consider questions submitted to it by the Board. In Czechoslovakia the shareholders elect an Audit Committee to examine the balance sheets and the general situation of the Bank. The Committee may, moreover, offer objections to any resolution passed by the Board of the Bank and in case of disagreement can appeal to a specially convened General Meeting. The shareholders of a Central Bank will not, however, have the same inducement to take an active interest in the administration as exists in the case of an ordinary company. The schemes for the limitation of dividends described in the previous chapter at once relieve the Board of the most familiar ground for shareholders' intervention in company management.

At the same time, it is possible to go further in the direction of protecting the Board from pressure by particularist interests on the part of shareholders who might seek to acquire undue influence by the acquisition of large holdings of shares. The limitation of the voting power of the individual is a method which many charters employ in a variety of ways. In the case of the Bank of England, £500 stock carries one vote and no individual has more than one vote. The National Bank of Czechoslovakia allows one vote for 10 shares. No one person can have more than one vote, and proxies are prohibited. In Germany, Austria and

Hungary the voting power of individuals is more strictly limited, in the first case to 300 votes and in the other two to 100 votes, however great the shareholding may be. In Lithuania the possession of 4 shares entitles the holder to a vote, and further every 10 shares confers a vote, subject to the condition that nobody may have more votes than a fifth of the shares in the Bank's capital would confer. This seems to admit the possibility of an excessive concentration of voting power. In certain cases, for example the Netherlands, Denmark and Czechoslovakia, voting rights are only exercised by nationals and in Lithuania it is provided that foreigners may not hold more than one-third of the capital.

A Central Bank controlling a sphere of national business cannot expect to be immune from criticism, and its policy will be closely watched by the public. But the measures just discussed diminish the stimulus to, and curb the power of, the shareholders to press the executive of the Bank to adopt any policy other than that which it considers best calculated to promote the general advantage.

Audit and Supervision

The importance of the duties entrusted to a Central Bank make it desirable to enact that the operations of the Bank should be subjected to rigorous scrutiny. This is most satisfactorily provided by laying down rules for the appointment of supervisors or Auditors, and for the definition of their duties. Provisions for the nomination of Auditors are included in most charters. The duties of the Auditors comprise the examination and passing of the balance sheets and scrutiny of the Bank's position. Provisions giving them access to the Bank's books and records for this purpose are to be found in various charters. The report of the Auditors is ordinarily submitted to the general meeting of shareholders. In some important instances a wider significance attaches to the functions of Audit. The laws of the Bank of France provide for the appointment by the shareholders

forming the General Assembly¹ of three Censors to be elected from shareholders of the commercial or industrial classes. With the Regents these Censors form the General Council of the Bank, and it is their duty to report to the General Assembly on their supervision of the due execution of the Bank's laws. In Belgium the Board of ten Censors "a le droit de contrôler² toutes les opérations". It passes the balance sheet and votes the budget on the proposal of the Board of Regents, whose resolutions modifying the discount rate and terms for advances are also submitted to the Censors. The Board of Censors decide further on the investments in public securities. It is laid down that the Board should meet at least once a month. Somewhat similar conditions are to be found in the charter of the Bank of Japan. In the case of the Reserve Bank of South Africa provision exists for audit by qualified accountants elected by the stockholders, and the Treasury is also empowered to inspect the Bank's books and records.

Apart from this kind of supervision and audit, publicity is an important element in the case of a Central Bank. As the currency authority, and in particular as the note-issuing authority, it is incumbent upon it to produce prompt and regular returns, showing its position in regard to its assets and liabilities. This obligation is universally recognised by the laws and charters of Central Banks. Except as regards the actual form of returns, there is a general similarity of practice. A statement is furnished by the Banks, either weekly or four times a month, showing their position, including the assets held against note and deposit liabilities. Provision is also ordinarily made for the presentation of an annual balance sheet and profit and loss account. These returns should be published with the minimum delay, and this is generally laid down in the charter. As regards the

¹ See Appendix I. p. 243.

² It should be noted that the word "contrôler" does not carry the ordinary implications of the word "control". Its main significance is concerned with supervision to ensure that there is proper compliance with law and statutes and not with the discharge of executive authority in actual administration.

actual accounts, these must be made out so as to satisfy the requirements of audit, and the manner of compilation is important from the point of view of the State, seeing that it normally participates to a substantial extent in the profits. The statutes, when they deal with such a point, ordinarily provide that all working expenses must be charged against the year in which they are incurred, but in some cases, for instance, Austria, Germany, Hungary and Poland, it is laid down that the expenditure connected with the introduction of new bank-notes may be spread over a number of years. It is, of course, for the Audit authorities to see that the accounts are maintained on a sound and conservative basis.

It is a question whether a Central Bank should be required to produce an annual report on its operations. Apart altogether from the interest that the public may legitimately take in the proceedings of a national institution, the information in such reports may help to show how far the Central Bank is achieving its purpose and in what respects improvements may be effected. Certainly the annual reports and periodical bulletins issued by the Federal Reserve Board are invaluable documents. The statutes of the Swedish Riksbank, the Bank of Norway and the National Bank of Czechoslovakia provide for the issue and publication of an annual report on the working of the Bank. In striking contrast to this publicity is the case of some of the older Central Banks. The Bank of England's weekly return of assets and liabilities, for example, is the sole published source of information regarding its proceedings. The Bank publishes no annual profit and loss account, and the weekly return may be described as a model of discretion, since it keeps its own secrets.¹ In the case of the newer Central Banks, which have still to establish a tradition of sound management, the framers of the charters have aimed at the issue of statements which will give the public a clear idea of the position from time to time. Complete uniformity of returns on the part of Central Banks is not practicable,

¹ Cf. Leaf, *Banking*, p. 45.

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owing to differences in business practice, but if they are to be properly informative it is desirable that the statements of assets and liabilities should distinguish between gold (coin and bullion) and subsidiary coin, and should specify separately the different groups of deposits (bankers', Government and others), the different categories of bills (domestic or foreign) and the different class of advances (State and other). Attached to this chapter are statements of the particulars required in the case of the Bank of Estonia and the Bank of Chile. A comparison shows how different a view may be taken as to the requirements. While there is in principle no objection to the Central Bank's furnishing such extensive statistics as it considers it can give without embarrassment, it is at the same time undesirable to obscure the essentials by excess of detail. Whatever information is supplied, it should be in such a form that the public may not only judge whether their interests are being properly served, but may also gauge the monetary position from time to time in its true aspects. The return to be furnished by the Bank of Estonia has only recently been drawn up by the League of Nations, and it may be assumed that this return is viewed by the experts of the League as containing sufficient information for public purposes regarding the position of a Central Bank.

The nomination of the Governor by the State, the appointment of independent Auditors and the insistence on prompt publication of regular returns should ordinarily give adequate assurance that the Central Bank will be conducted in accordance with the statutes and as public interests require. These are safeguards imposed from within the organisation. A number of countries have, however, considered it necessary to go further in the way of strengthening public confidence and of providing against possible failure on the part of the Bank in the discharge of its duty. As already noted, the statutes of many of the European Central Banks provide for the appointment of a State Commissioner with wide powers of supervision, so that the Government may be satisfied that the law and statutes are carefully observed on

the part of the Bank. The range of his duties has already been discussed in Chapter II. The Commissioner's salary in the case of the Netherlands Bank and the proposed Bank of Greece is payable by the State. This emphasises his responsibility to the State and seems preferable to the alternative illustrated by the Charters of the Central Banks of Austria and Hungary, in which power is reserved to the Government to require payment by the Bank to defray the cost of State supervision.

Special control over the Central Bank from outside the administration itself is provided in Chile by the Superintendent of Banks. This official, who is appointed by the President of the Republic, has the duty of conducting an examination into the condition of all banks in Chile, including the Central Bank. Examinations must be held at least once a year, but may take place as often as the Superintendent deems necessary. Moreover, he may call for any reports he requires to be submitted in prescribed form. The powers of the Superintendent are comprehensive, and are specially directed to prevent any infraction of the law, failure to maintain legal reserves or unsafe conduct of business. In the United States of America the control over the Federal Reserve Banks is vested in the Federal Reserve Board, which is given by the Act full authority to exercise general supervision, to examine the books and to take action in case of any violation of the law by a Federal Reserve Bank.

There is an important difference in conception between the cases where the requisite guarantee of good administration is provided by the inherent constitution of the Board and arrangements of a domestic character, and the cases where a special agency in the form of a State Commissioner or Superintendent of Banks is introduced for the purpose. No doubt the requirements of all countries are not the same, and those countries where a conservative tradition of banking is well established can dispense with special safeguards deemed necessary elsewhere.

ANNEXE
FORM OF WEEKLY RETURNS

(a) ESTONIA

EXTRACT FROM STATUTES OF BANK OF ESTONIA

ART. 48. The Bank shall publish a Return of its assets and liabilities on the 7th, 15th, 23rd and last day of each month, and not later than a week after these dates, in the form set out in the Annex to this Law.

ANNEXE

WEEKLY RETURN OF THE BANK OF ESTONIA

| <i>Assets.</i> | <i>Liabilities.</i> |
|---|---------------------------------|
| (1) Reserve: | (1) Capital |
| Gold coin and gold bullion | |
| Net Foreign Exchange (Bank Law, Art. 59) | |
| (2) Subsidiary Estonian coin | (2) Reserve Fund |
| (3) Home Bills discounted: | (3) Current Liabilities: |
| Commercial | (a) Notes in circulation |
| Agricultural | (b) Sight Deposits and |
| Timber ¹ | Current Accounts |
| | Government |
| | Bankers |
| | Other |
| (4) Loans and advances: | (4) Other Liabilities |
| Government | |
| Other | |
| (5) Immovable Property and Equipment | |
| (6) Other assets | |
| Total | Total |
| | |

Proportion of reserve to current liabilities . . . per cent.

¹ This item is separately stated for purely local reasons.

(b) CHILE

EXTRACT FROM LAWS GOVERNING THE CENTRAL BANK OF CHILE

ART. 92. In addition to the above-mentioned report the Bank shall submit weekly to the Superintendent of Banking, on such a day of the week as the Superintendent may determine, a balance sheet of the Bank in the form which the Superintendent of Banking may prescribe.

Among other things, this balance sheet shall show :

- (a) The amount of bank-notes outstanding.
- (b) The Bank's total deposits classified so as to show separately :
 1. Deposits of member banks.
 2. Deposits of the general public.
 3. Deposits of the national Government, and
 4. Deposits of provinces, municipalities and other governmental units and entities of Chile collectively.
 5. Other deposits.
- (c) The reserve of the Bank, classified so as to show :
 1. The cash reserve held by the Bank in Chile, distinguishing :
 - (a) Gold, and
 - (b) Coins of silver, nickel, copper, collectively.
 2. Earmarked gold held abroad.
 3. Demand deposits payable in gold and located in banks abroad, qualified by law to hold legal reserves of the Central Bank.
 4. Deposit credits in foreign countries not countable as legal reserves.
- (d) The loans, discounts and other advances of the Bank of all kinds, classified :
 1. As to classes of borrowers, i.e. :
 - (a) Member banks.
 - (b) The public.
 - (c) The National Government.
 - (d) Other governmental entities, and
 2. As to maturities.

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(e) The amount of bonds and other investment securities owned by the Bank, showing separately:

1. The amount of such securities issued or guaranteed by the National Government of Chile and other governmental entities of the Republic :
2. The amounts of such securities, if any, issued by foreign governments or other foreign political units.

ART. 93. The Central Bank shall attach to the above-mentioned weekly balance sheets a statement of the percentage of the gold reserve (including gold held in its own vaults, earmarked gold held abroad and demand deposits payable in gold in banks abroad qualified to hold its legal reserves) which the Bank is carrying against its notes outstanding and deposit liabilities combined. It shall also attach a statement showing its discount rates on various kinds of paper.

ART. 96. The reports mentioned in this chapter shall be published each week, within three days of the date to which they refer, in the *Diario Oficial*.

CHAPTER V

NOTE ISSUES AND NOTE AND BANKING RESERVES

An essential function of a Central Bank is the maintenance of the stability of the monetary standard. This involves the control of the monetary circulation and the Bank therefore should be given the right of note issue, and preferably the sole right. The alternatives are the issue of notes by Government or by commercial banks or by both in combination. The arguments against Government control of the Central Banks have already been stated, and the objections apply with peculiar force in reference to the note issue. [If the Government itself has the right of note issue, either alone or in association with one or more banks, political considerations and the pecuniary needs of the State rather than considerations of a sound monetary economy are likely sooner or later to become the determining factor. There will be a risk of excessive issues and consequent depreciation.] The observations of the Irish (Free State) Banking Commission on this point are interesting :

Mindful as it is of the disasters of past years in all countries where currency was issued by the Government, and recognising the hazards which come from changes of Government, from the development of budget deficits and other evils from which no country has found itself immune, the Commission is definitely of the opinion that the management of the legal tender note issue should be placed in the hands of a non-political and independent body, which shall control the conditions of issue and shall have full control and custody of the securities it holds.

The dangers that the Irish Commission had in mind are avoided if the government is restricted to the issue of notes purely against metallic cover, as is the case with the United States gold certificates which are in effect warehouse receipts against gold held in the Treasury; but no country with a highly developed financial and commercial system could be content solely with a note issue of this nature, since a fiduciary issue is an integral factor in the expansion of credit. It is in the handling of the fiduciary issue that Governments have so frequently proved themselves unsatisfactory guardians of the public welfare. Further, however free a Government may be from ulterior motives it cannot so easily and rapidly adjust the supply of paper money to the varying needs of the community, since it is not as sensitive as a bank to the conditions in the financial and commercial world. Hence a State issue is likely to be unduly inelastic if the Government of the day keeps to the paths of financial virtue, but all too elastic if the Government finding itself in pecuniary difficulties is unable to resist the attractions of the printing press.

The disadvantages of multiple note issues by commercial banks are no less real and have been frequently demonstrated by experience. Here again there is the risk of over-issue. Whether commercial banks have the right of note issue or not, the limitations of their profits is not practicable. Consequently, since the issue of notes is normally a profitable undertaking each institution is likely to issue fiduciary paper up to the maximum possible. Even though there are definite limitations imposed by law on the fiduciary issue, the dangers of overissue are not precluded, since the legal maximum does not necessarily coincide with the quantity that the circumstances of the day demand. With multiple banks of issue, all organised on a profit-making basis and all competing with one another for custom, the maximum issue legally permissible will tend to be the normal issue. Insufficient margin is thus left for safety so that any untoward event may jeopardise the security of the whole banking system.

The importance of having a central issuing authority may be illustrated from the present position in the United States. By law 40 per cent of the Federal Reserve Notes in circulation must be covered by gold and 35 per cent of deposits by gold or lawful money. Actually the reserve against the combined notes and deposit liabilities during the last five years has been as follows :¹

| | | | | | |
|-------------------|---|---|---|------|-----------|
| Last week of 1922 | . | . | . | 72·7 | per cent. |
| " " " 1923 | . | . | . | 75·3 | " |
| " " " 1924 | . | . | . | 73·0 | " |
| " " " 1925 | . | . | . | 69·0 | " |
| " " " 1926 | . | . | . | 71·4 | " |

This situation has been the result of a deliberate policy on the part of the Federal Reserve Board with a view to maintaining stable economic conditions, but it means in effect that a considerable part of the resources of the Federal Reserve Banks are invested in non-interest-bearing gold in the place of interest-bearing bills and securities. If the note issue were in the hands of commercial banks such a policy would be impossible. No bank organised primarily for profit could afford to adopt a line of action which is so unprofitable from the point of view of dividends and which would place it at so great a disadvantage as compared with its competitors. Such a policy can only be put into force when dividends are a wholly subsidiary consideration and where there is some central directing body. This second consideration is an important one. It is a principle of sound currency organisation that the issuing authority should be the authority responsible for the control of the currency standard. In other words, these responsibilities should not be divided. With multiple banks of issue there can be no single directing impulse. Further, if there are many issuing authorities there must be many gold reserves. The dangers of such a situation have already been discussed with reference to the crisis of 1907 in the United States,² which furnished a

¹ *Thirteenth Annual Report of the Federal Reserve Board.*

² See *supra*, pp. 6, 7.

convincing proof of the evils inherent in scattered gold reserves.

These considerations sufficiently explain the modern tendency to concentrate note issues under a Central Bank. The process is not yet complete. Canada, for example, still remains without a Central Bank, and the notes are issued by fifteen Chartered Banks as well as by the Dominion Government. The Chartered Banks, however, in so far as they fulfil certain of the functions of a Central Bank are subject to public control, and the limitation of their power of note issue are defined as precisely as that of a Central Bank. Other countries are in an intermediate stage. The United States is an outstanding instance. Government notes, notes of a number of national banks and Federal Reserve notes are all found in circulation, but there is a marked tendency for the Federal Reserve notes¹ to replace the other two classes. The notes of the national banks were reduced from about 21 per cent of the total monetary circulation in December 1913 to about 13 per cent by April 1926.² Probably the framers of the Federal Reserve Act would themselves admit that such a situation is not ideal and is in principle open to objection. No central banking system can really be the controlling force it should be if its policy can be stultified by uncorrelated action on the part of numerous commercial banks of issue. The Central Bank may consider it advisable to contract credit, but the commercial banks regarding the matter from a local standpoint and from the standpoint of their own balance sheet may continue to lend and issue notes freely. The central banking system is thus robbed of its full effectiveness and there is no single policy directing the currency and credit system of the country. In the case of the United States this disadvantage is more apparent than real. One of the

¹ Federal Reserve Notes are obligations of the United States Government. But the conditions of issue place them in a similar category to the notes issued by Central Banks. See Appendix I. pp. 362, 363.

² Professor E. W. Kemmerer, *The A B C of the Federal Reserve System*, p. 53.

features of the previous system was its extreme inelasticity and this characteristic still applies to the note issues of the national banks and of the Government notes. The responsibility for the expansion and contraction of the currency according to trade needs, therefore, does in fact rest predominantly with the Federal Reserve Banks. Moreover, as a practical question the complete extinction of previously existing issues within a brief space of time may present insuperable difficulty when these have been on as large a scale as they were in the United States of America and when so many banks are involved. When the issues are more limited the problem is easier. In South Africa, for example, the Currency and Banking Act of 1920 made definite provision for the South African Reserve Bank gradually to take over the existing issues of the commercial banks, while the Colombian Bank Act of 1923 provided for the gradual withdrawal or redemption, both of the notes issued by the commercial banks and of the various forms of Government note.

In Europe a Central Bank with the sole right of note issue has long been in principle a generally accepted feature of the more highly developed banking systems. Italy with its three banks of issue was until recently a notable exception, but their note issues have now been combined under the Bank of Italy. Outside of Europe the same tendency is at work. The Commonwealth Bank, established before the war, is the only note-issuing authority in Australia. The same line has been taken in framing the more recent Charters of the Central Banks of Chile, Colombia and Ecuador, while a similar policy has been recommended as regards the proposed Reserve Bank of India.

During the war, undoubtedly, the sound doctrine of leaving the note issue under the control of the Central Bank was violated either in letter or spirit, and many Governments encroached upon the prerogatives and independence of the Banks. Either the Government took upon itself the issue of additional notes as in the United Kingdom, or where the Bank still kept the sole right of issue, as in France, it was in

effect the Government's policy and not the Bank's policy which determined the volume in circulation. But as each country has gone back to a gold basis, a Central Bank with the sole privilege of note issue has been the salient feature of the new or reorganised systems. Clearly, the duties of a Central Bank in regard to the maintenance of the currency standard are such that it could not hope to discharge them satisfactorily if its control of the volume of the circulation was liable to be defeated by the action of others. In some instances the Bank's monopoly is emphasised by the inclusion in its charter of an explicit renunciation by the State of its power to issue notes, as in the statutes of the Banks of Czechoslovakia, Austria and Hungary. In the last two cases the issue of notes by the State entitles the Bank to surrender its privileges and to go into liquidation, even before the expiry of its term and without the consent of the Legislature. In Holland the Charter provides that the share of the State in the profits of the Netherlands Bank shall cease if the Government or any other bank should issue notes.¹

The existence in the United Kingdom of the £1 and 10s. Treasury notes is an obvious exception to the general practice. Any increase in these notes has been prevented since 1919 by the rule limiting the fiduciary issue in any year to the actual maximum of the preceding twelve months,² and in accordance with the recommendations of the Cunliffe and Bradbury Committees, which have been adopted as the basis of British monetary policy, it is recognised that before long the Treasury notes will cease to exist as such, and will be amalgamated with the Bank of England's issue. The Bank of England will then once more hold the virtual monopoly of note issue which, apart from the issues of Scotch and Irish Banks, it had enjoyed for seventy years prior to the outbreak of the war. The independent issues of English banks which still remained as a legacy from the pre-Bank Act days lapsed

¹ See however Arts. 31 (d) and 16 (1) of the Netherlands Bank, pp. 309 and 312.

² See Treasury Minute, 15th December 1919, Appendix II. No. 2.

entirely in 1920 and were not in any case of sufficient magnitude to be important. Limited rights of note issue on the part of banks other than the Central Bank remain also in certain countries. Some of the German banks, for example, may issue notes but they are not legal tender, and the total permissible issue is only 194 million marks, whereas the note issue of the Reichsbank at the end of September 1927 was 4182 million Reichsmarks. They do not therefore affect the position of the Reichsbank as the controlling power in connection with the issue of paper money.

Many Charters, besides conferring the privilege of sole issue on the Central Bank, prescribe, as a natural corollary, stringent penalties for the circulation by others of paper payable to bearer on demand that might function as currency. Provision to this effect appears in the laws regulating the Reserve Bank of South Africa, the Commonwealth Bank of Australia, the Netherlands Bank and in certain other cases.

Before discussing the amount and nature of the reserves which the Banks are obliged to keep against their notes it is necessary to consider the relations between the functions of the Banks as note-issuing and as deposit organisations. In some countries the law specifies the reserves to be held against the combined total of note issues and current accounts or "other immediate liabilities". In others the reserve requirements apply to note issues only. The complete separation of banking and issuing functions which is manifested in the two departments of the Bank of England is exceptional. It has a historical significance, but is open to criticism, from a banking point of view, in that it does not exhibit the Bank's liabilities as one comprehensive whole, though it has the advantage of directing immediate attention to the amount of free resources at the Bank's disposal. It also involves an element of inelasticity which might have proved highly inconvenient if it had not been circumvented by the development of the cheque and by skilful technique on the part of the Bank's management. The implications of the British system are examined in greater detail here-

after. The system of a separate Issue Department has been copied by Australia, influenced, perhaps, by the tradition of the Mother Country rather than by banking considerations, but in general even where the legal reserve requirements apply to note issues only, there is not this rigid separation into two departments. The Indian Reserve Bank Bill proposes to maintain a separate Issue Department, but the position will differ from that of the Bank of England as the Indian note issue is to be based on the proportional reserve system.

The existence of legal requirements for the reserves to be held against note issues, whilst banking reserves were left uncontrolled, was a common feature of the older established banks of issue. At the time when their charters were drawn up bank-notes played so much more visible a rôle than other forms of bank money that it was not unnatural for attention to be focussed on the former to the exclusion of the deposit functions of the Central Banks. Notes still constitute the principal liability of many of the issuing banks, but as economic conditions develop the relative importance of actual currency as compared with bank credit declines. If then it is held necessary to regulate the assets held against the note issue it is legitimate to inquire whether it is proper to leave banking reserves uncontrolled. It might be urged that the limitation of note issues in itself acts as a sufficient check on the granting of bank credits. It is true that since an increase in the volume of credit means, *ceteris paribus*, a rise in prices and consequently an increase in the demand for currency, an undue extension of bank credits may so increase the demand for bank-notes that the maintenance of the legal limitations as to note issue and reserves becomes impossible. A wisely administered Central Bank, therefore, must necessarily consider the state of its reserves against notes in determining how freely it will lend and create other forms of bank money. But the very existence of legal requirements for reserves against note issues is a recognition of the fact that a Central Bank cannot be regarded as infallible, and there can be no logical grounds for

accepting the unfettered judgment of the bank administration in connection with banking reserves but not in connection with reserves against note issues. The fixation of an absolute maximum for the fiduciary issue, as is done in the United Kingdom, may be justified by the principle that if it is placed at a level below which the note circulation could in no imaginable circumstances fall, the convertibility of the notes is virtually assured. But the fact that an abundant note cover is not in itself sufficient protection to a Central Bank is illustrated by the history of the Bank of England. Before the Bank Act had been in force a quarter of a century it was found necessary to suspend it on three occasions, and on each occasion the trouble arose from the insufficiency of assets in the Banking Department. Assuming a heavy demand for the withdrawal of deposits and the encashment of notes a Central Bank would not be able to discriminate between the two in the paying out of cash, and the allocation of specific resources to specific liabilities is largely illusory. Many of the newer bank charters have accordingly recognised the essential unity of a Central Bank's note and deposit liabilities, and from the point of view of reserve requirements make no distinction between notes and other immediate obligations. Such is the case, for example, in Austria, Hungary, Czechoslovakia, Finland, Bulgaria and Chile. In the United States of America, as has already been pointed out, the reserves to be held against notes and deposit liabilities are separately fixed by the Federal Reserve Act, namely at 40 per cent gold in the former and 35 per cent gold and lawful money in the latter. It is difficult to see any adequate reason for allowing a reserve against deposit liabilities which is 5 per cent less than that considered necessary as a reserve against notes, and there is a growing opinion in the United States that it is unwise to have these two different proportions.¹

✓ The regulations as to reserves vary considerably in different countries. In France there is no stipulation

¹ Cf. Prof. E. W. Kemmerer, Report in support of Bill creating "El Banco Central de Chile".

regarding the proportion of notes to be covered by gold, but the maximum note issue was fixed, the limit being raised from time to time according to the needs of trade. Since 1914 the maximum has been increased by law on a number of occasions without due regard of consequences, but when the country was on a gold basis expansion was carefully controlled. In England, in Norway¹ since 1920, and in Japan the Bank's fiduciary issue is fixed by law and the excess over the amount has to be covered by 100 per cent gold. In Sweden the Riksbank may issue notes to an amount of 125 million kronor, together with an amount equal to twice the metallic reserve. In Spain the absolute maximum for the note issue is fixed at 6000 million pesetas, but the issue may only exceed 5000 million pesetas on the proposal of the Supreme Banking Council and with the consent of the Government if economic conditions definitely demand an increase. The Supreme Banking Council, it should be pointed out, is the highest administrative body dealing with the private banks. A Royal Commissioner acts as President and a representative of the Bank of Spain as Vice-President. The Spanish system combines a fixed maximum issue with a minimum percentage for the gold reserve, varying with the size of the issue. If the total circulation is not above 4000 million pesetas there must be a metallic cover of at least 45 per cent, including at least 40 per cent in gold. When the circulation is over 4000 million pesetas and not in excess of 5000 million the total metallic cover must be at least 60 per cent with 50 per cent in gold.

A peculiar feature of the Italian system is the differentiation between notes issued on commercial account and those issued as advances to the State. This distinction, while it has the merit of making clear the extent of Government indebtedness to the Bank and in normal times provides a method of limiting this indebtedness, seems likely to lead to

¹ Notes of small denominations which are only limited legal tender are also issued in Norway without any legal restriction, but the Bank is taxed on their issue.

the mistaken impression that the former are in principle different in economic effect from the latter. Both for the commercial notes and for the "Statutory Advances" to the State a maximum issue was fixed by law which was combined with a minimum percentage for the reserve, though the proportion fixed for the State issue was lower than for the commercial issue, namely $33\frac{1}{2}$ per cent as compared with 40 per cent. These restrictions on the State issue are not at present operative since additional advances have been authorised at various times as a result of the war, and no obligation is imposed on the Bank as to the reserve to be held in respect of these. Such a situation can only be regarded as temporary, and when the lira is legally stabilised the State advances will need to be put again on a sound basis.

Most other countries have fixed a minimum percentage of the note issue which must be covered by gold, but unlike Spain and Italy they have no fixed maximum issue. The percentage varies widely and must clearly depend on the circumstances of the country. Where confidence in the Central Bank is well established the reserve can safely be set at a lower limit than in a country where it is still on its trial. Thus in Chile and Colombia, with their chequered financial history, the normal minimum reserves against notes and deposit liabilities have been put on expert advice at 50 per cent and 60 per cent respectively, and 50 per cent is the figure proposed for the new Bank of Ecuador. In Latvia the reserve against notes is 50 per cent when the note issue is less than 100 million lats, but if the note issue exceeds that amount, 75 per cent of the next 50 million lats must be covered by the reserve and the whole of any issue over 150 million lats. On the other hand in Australia the reserve is only 25 per cent. In Germany the normal statutory minimum for the reserve is 40 per cent of the note issue.

The fact that in many countries, as in Great Britain, people have lost the habit of using actual gold coin must have an appreciable influence on the amount of gold it is necessary to keep in reserve. It would suggest that a lower

proportion might now be considered safe than was previously the case. Actually most of the countries which to-day are on a gold or gold exchange standard have reserves well in excess of the amounts they are legally obliged to carry, but the present distribution of the world's gold supply cannot be regarded as necessarily permanent, since it is likely to be altered as other countries return to gold and normal economic conditions are restored. Clearly it is necessary at any rate for the Central Banks of those countries from which gold may freely be drawn, to hold reserves substantially in excess of the legal minimum, so that they may be able to meet possible future demands without serious disturbance of credit. How the situation will develop, and whether the present reserve requirements will be found suitable to future conditions, it is impossible to foretell. If, as some authorities suggest, the output of new gold should hereafter prove insufficient to meet the trade demand and the monetary needs of the Central Banks, on the present basis of reserve requirements, unless a fall in prices is induced, it would be desirable for the Central Banks to reconsider in concert the question of modifying the gold proportions now laid down. There is nothing sacrosanct about these percentages, which are still in the state of experiment. The science of credit control is continually advancing with the progress of economic development, and if the need arises, improved mechanism will in all probability enable further economies to be made in the use of gold.

The point has recently been raised whether the United Kingdom would not be well advised to adopt a percentage basis for its gold reserves. The Treasury notes are likely before long to be amalgamated with the Bank of England note issue, and this, it has been suggested, would furnish an opportunity for revising the Bank Act on the lines of the Federal Reserve System. If the change were advocated on the grounds that it would enable a larger superstructure of credit to be based on the present gold holdings of the Bank of England, it would be necessary to consider whether it is a good thing per se to expand credit and whether in the

circumstances of the case the expansion could be maintained without producing the disadvantages of inflation. To explore these monetary problems fully would be beyond the scope of this book; but as the limits of credit expansion in a country on a gold basis are set by the level of external gold prices, it would seem that unless expansion in the United Kingdom were associated with a corresponding movement in the United States and elsewhere, it would be short-lived, as losses of gold and the need for safeguarding the gold standard would quickly lead to a policy of credit restriction. To appreciate the practical effect of the suggested change in British policy it is necessary to assume the amalgamation of the Bank and Treasury note issues and to rearrange the Bank's weekly return on the lines of the American model. If this is done, the Bank of England return for 28th September 1927, which showed a ratio of gold to Bank-notes of 88 per cent and a reserve proportion in the Banking Department of 27·8 per cent, would appear as follows :

BANK OF ENGLAND RETURN OF 28TH SEPTEMBER REARRANGED AS
AN AMALGAMATED STATEMENT INCLUSIVE OF TREASURY NOTES

| | £000,000 | | £000,000 |
|------------------|----------|-------------------------------|--------------------|
| Capital | 14·6 | Government Debt | 11 |
| Rest | 3·8 | Government Securities | 293·6 |
| Deposits | 123·2 | Other Securities | 59·7 |
| Notes | 373·8 | Gold and Silver | 151·1 ¹ |
| | 515·4 | | 515·4 |

This statement shows a holding of gold against notes of 40·4 per cent. But in the United States of America the normal legal minimum for the reserve is 40 per cent gold against notes and 35 per cent gold or lawful money against deposits, and somewhat similar proportions have been adopted in certain of the European countries, such as Belgium, Austria and Hungary for the combined reserve

¹ The amount of silver is not shown separately, but is relatively insignificant. In the discussion following the holding is treated as being gold alone.

against notes and other immediate obligations. If the note and deposit liabilities in the hypothetical return above are taken together, the gold reserve of the Bank works out at 30.4 per cent. Such a proportion is lower than the standard minimum prescribed by the Federal Reserve Act, and the modern charters of representative Central Banks on the Continent. So far, therefore, from indicating an unduly high holding of gold, a comparison with American and Continental practice would suggest that the reserve is unduly low, and if that practice were adopted it would necessitate a policy of credit restriction. It may, however, be urged that the gold percentages laid down by American and Continental practice are higher than are required for safety. Such a contention as applied to the United Kingdom, with its special liabilities as Europe's free gold market, would appear difficult to establish. In any case, if there is to be a general revision of gold percentages with a view to effecting economy of gold, it would require concerted treatment by the Central Banks. As long as other countries maintain the present reserve requirements it is not clear, so far as the United Kingdom is concerned, what purpose would be served by adopting a lower percentage gold ratio than deemed appropriate elsewhere. To justify an expansion of credit the actual gold reserve would have to be well above the standard minimum, which on the present facts as regards the Bank of England's gold holding it would not be, even if a ratio of 30 per cent were adopted as compared with the 40 per cent applied in certain representative countries. Thus the adoption of the Federal Reserve plan by the United Kingdom, even with a somewhat lower gold reserve requirement, would not in present circumstances release a store of credit not available under the existing monetary system.

Whether the reserve requirements of a Central Bank are determined on a proportional system, as in the U.S.A., or by reference to a fixed fiduciary issue as under traditional British practice, approximately the same quantitative result as to the amount of gold to be held may be arrived at by suitable

adjustment of the figures. The question whether statutory gold reserves are appropriate to the Bank's total liabilities is entirely distinct from the question as to whether these requirements are arrived at in a way that allows sufficient scope for elasticity of control in the regulation of credit.

The present system of the Bank of England is sometimes criticised from this latter point of view. It is urged that it prevents that elasticity of credit necessary to promote trade activity. It is pointed out that if the Bank of England adopted the American system it would be able to issue £100 of notes for every £40 of gold that came into its possession, while at present it can only issue fresh notes to the exact amount of new gold received. It must not, however, be overlooked that the converse also applies. For every £40 of gold withdrawn from this country the Bank of England need only contract its note issue by £40, whereas a country organised on the Federal Reserve pattern might in similar circumstances have to contract their circulation by the equivalent of £100. The question of the elasticity of currency has thus two facets and has different im-

lications according to the conditions of the country. In countries, for example, in which agriculture in any form plays a predominant part, it is essential that the currency should be easily expanded to meet the increased demand when the crops are being moved. So much is this the case that in Canada the banks are allowed to increase the fiduciary issue of notes during certain times of the year. In the United States the inelasticity of the currency under the old régime in the face of seasonal variations was one of the strong arguments in favour of the introduction of the Federal Reserve system. But in England the situation is different. The effect of crop movements is seen not so much in an increased internal demand for currency, as in increased imports which tend towards, if they do not actually produce, a demand for gold for export. In general, variations in the internal demand for currency in England are comparatively slight, whilst the demand for gold for export is highly variable and is a matter of far

greater importance than in any other country. The liability of the London money market to demands for gold for export before the war was one of the chief explanations of the fact that the bank rate was more subject to fluctuations than was the case in a country such as France, but if the gold exported had been used as the basis for an issue of notes to 250 per cent. of its own value, these fluctuations must inevitably have been greater than when it supported notes of equal value only. If the gold were exported as the result of an "unfavourable" balance of trade due to a difference between internal and external prices, it is arguable that the greater contraction of currency would be an advantage since it would more speedily reduce internal prices and re-establish equilibrium. But even in this case there would be no immediate benefit to trade and the jar to industry would, if the working of the law was not tempered by counteraction on the part of the Central Bank, be more violent than under the present cent per cent system. Further, London is peculiarly subject to exports of gold which may have no connection with any disparity in its own internal price level with external prices. A foreign country can always draw gold from London if it holds a credit there as the result of its balance of payments or raises one *ad hoc*; many countries hold such credits in London, and those that do not are always able to obtain one, if they are prepared to pay the price. Being an international market for borrowing and a free market for gold, London must always remain liable to sudden withdrawals of gold for export on a large scale, as was illustrated in the summer of 1927 by the gold purchases of the Bank of France. In such circumstances there are obvious dangers from a too elastic note issue, which might lead to excessive variations in currency supply, and consequently in prices. London is in practice the only country liable to such risks. None of the Continental countries are international gold markets in the British sense, while in the United States the reserves actually held are so largely in excess of the statutory requirements that substantial withdrawals of gold can take place without

entailing contraction of the note circulation in the theoretic proportion of 100 to 40 of gold withdrawn. The shock can be absorbed in whole or part by allowing the ratio of gold to liabilities to be reduced, since it is well above the prescribed standard at the outset. The exceptional character of the gold position in the United States has directed the working of the Federal Reserve System on lines that were not contemplated by its framers, and has provided, where contraction is required, scope for an elasticity of treatment which would not otherwise have been available.

As regards expansion, it may be urged that as in the United States of America notes may be issued in the proportion of 100 to 40 of gold, the British system would not allow the currency authority here to keep in step with an expansionist movement on the part of the Federal Reserve Board. If such a development took place in the United States, the effect of it would be to raise prices there and to cause exports of gold to London and other centres. These exports of gold would continue until factors at work in the United States and outside had again restored an equilibrium. If the movement in the United States had been violent the slower response of currency expansion in England would have proved of benefit as a moderating influence. Assuming, however, that a more rapid movement was thought desirable, there are ways open to the Bank of England to speed up expansion, for although the Bank's note issue is regulated on rigid lines the ratio of the Banking Department of the Bank of England is subject to no statutory restriction, and here the proportion has always been permitted to vary widely from time to time. By these variations the Bank has been able to impart an elasticity into what otherwise would have been a rigid frame. The Bank's "proportion" (that is, the percentage of the reserve to deposit liabilities) used before the war to stand normally in the neighbourhood of 45 per cent. The late Dr. Leaf stated that 40 per cent was not regarded as a particularly low figure and that 30 per cent was generally held to be the minimum that was safe,

and when that was approached a rise in Bank rate was confidently looked for.¹ In post-war years the Bank has worked with much lower proportions, but the ratio has on the whole been rising and at the end of September 1927 stood at 27·8 per cent. Thus in the case of the Bank of England the rigidity of the Issue Department is tempered by the elasticity of the Banking Department. This may be illustrated by the Bank of England's operations after the reintroduction of the Gold Standard in the United Kingdom in 1925, of which an interesting analysis appeared in the *Midland Bank Review* for March–April 1926. For the first three and a half months after the return to gold there was a continuous inflow of gold into this country, but it was realised that this was likely to be only of a temporary duration and should not therefore be used as the basis of credit expansion. The Bank accordingly reduced its loans and sold securities as the gold came into the country, with the result that there was no increase in the deposits of the Banking Department; the notes issued against the new gold were used to strengthen the reserves and were not put into circulation. During this period the reserve proportion rose from 22 to 31 per cent. During the following three and a half months the movement was reversed; the Issue Department lost £17,000,000 and cancelled an equivalent amount of notes. This outflow was not, however, due to unduly high internal prices, so that the situation did not call for a restriction of credit; such a restriction would, moreover, have had a serious effect on trade which was already depressed. The Bank, therefore, bought investments and increased its loans to the market. Deposits were as a result maintained at the same level, but the reserve proportion declined during this period from 31 to 21 per cent. A wise handling of the market is not therefore a mere matter of subservience to legal obligations as to gold reserves and note issues, and the system of a fixed fiduciary issue may be harmonised with the requirements of an elastic credit control.

The action of the Bank of England and of the Federal

¹ Leaf, *Banking*, p. 41.

Reserve authorities in countering the disturbing effects that variations in their gold holding might otherwise exert suggests that the practical effect of the difference between the two systems in working may easily be exaggerated. The important point to note is that under each system scope exists for latitude and discretion. The actual gold position in London and the peculiar liability of London to gold exports point, as previously suggested, to the drawback of adopting a system which might increase the range of currency and credit movements. The allegation of inelasticity in the working of the traditional British system when viewed as a whole has been seen to be ill-founded. A certain goodwill, moreover, attaches to that system with its established record, and this is in itself worth retaining, especially when the alternative is to experiment with a scheme of which the suitability to the needs of the United Kingdom appears altogether problematical.

One striking development needs to be considered in connection with the reserves in certain countries. In the older charters what was ordinarily meant by a reserve was actual gold or silver in the vaults of the Bank. But this is no longer so generally the case, and many of the newer Bank charters allow foreign claims in gold to be reckoned as part of the legal reserve, the nature of such claims being carefully defined so as to ensure that they are absolutely secure and can be quickly liquefied. Thus in Germany 40 per cent of the value of notes issued must be covered by gold or "Devisen", that is bank-notes or bills of not more than fourteen days' currency, cheques and claims due from day to day payable in foreign currency by banks of known solvency. Of this 40 per cent, three-quarters must be in gold. The law also provides that apart from the statutory cover for the note issue the Reichsbank shall at all times "hold assets in the form of demand deposits in Germany and abroad, cheques on other banks, bills of exchange running for a period of not more than thirty days, or in loans payable from day to day representing not less than 40 per cent of the Bank's deposit liabilities apart from those

on reparations account". This clause is open to the criticism that deposits in, or claims on, other banks in Germany do not constitute a true reserve to the Central Bank, seeing that at a time of stringency they could not be withdrawn or discharged without forcing the banks holding them to rediscount eligible paper at the Reichsbank. The result would be that the cash reserve of the Reichsbank would be used to make advances to the commercial banks to enable them to repay the sums previously deposited with them by the Reichsbank.

In Belgium 40 per cent of notes and other immediate liabilities must be covered by gold or foreign values convertible into gold, and of this three-quarters must be gold. In certain other cases the proportion of the reserve to be held in gold is not specified. In Austria all notes and immediate liabilities in excess of the existing Federal Loan Debt must be covered by a cash reserve which is to be gradually increased to 33½ per cent. The cash reserve may include foreign currency and foreign values, foreign currency being defined as foreign notes which have not undergone violent fluctuation of exchange, and foreign values as bills made out in the above currencies, credit balances and cash deposits payable at leading banking centres in Europe and America; the bills must be vouched for by banks of unquestioned solvency and must fulfil certain requirements as to length of maturity and the number of signatures. Until cash payments are introduced, the law provides that 25 million gold crowns must be held in credits and deposits of the kind specified above at the chief banking centres of Europe and America. In Chile the 50 per cent reserves against notes and deposits may include deposits payable in gold on demand in London and New York. Provisions on the above lines are found in Czechoslovakia, Hungary, Poland, Bulgaria and Finland.

The countries which include claims on gold abroad in some form in their cash reserves are, it will be noticed, countries which are for all practical purposes on a gold exchange standard, that is, countries which have not

yet reintroduced gold payments but are maintaining the stability of their currencies in relation to foreign gold currencies, such as the pound and dollar. The issue of notes against foreign values is an effective method of ensuring this stability since it provides the means of withdrawing notes that may become redundant. Where, as in Germany, Belgium and Chile, the Bank is definitely empowered as a part of permanent policy, to redeem its notes in foreign drafts or foreign currencies as an alternative to redemption in gold, the inclusion of foreign values in the cash reserve is an obvious corollary of this policy. It has the advantage not only of ensuring stability but also of effecting an economy in gold itself when exchanges have reached one or other of the gold points. If the exchanges are such that gold would naturally be exported, the sale of drafts, say, on London or New York, by providing a claim to gold in those centres, obviates the necessity of actual transfer of the metal, whilst the cancellation of the notes received in payment for the drafts will, by reducing the currency in circulation, set in motion forces tending to bring the exchange back to equilibrium. Conversely, when the exchanges point to an import of gold, the Bank, if it wishes to check the transfer, can do so by operating in exchange. It will take over the gold credits abroad, which will form the cover of corresponding issues of paper money at home. Thus the currency will be increased as the state of the exchanges demands, without any actual transfer of gold. The right to issue notes against external assets might also prove important in times of crisis when actual gold might be difficult to obtain in sufficient quantity at short notice without creating a disturbance of credit. The nature of the credits admissible as part of the legal reserve vary in different countries. There is a distinction, for example, between deposits payable in gold on demand in London or New York, which is the sole form of foreign claim allowed to the Bank of Chile, and bills of fourteen days' currency payable in foreign currency such as the Reichsbank is empowered to hold. But the object in all cases is the same,

✓ the essential matter being to provide that the claims in foreign currency reckoned as part of the metallic reserve, should be so restricted by definition as to be to all intents and purposes as good as gold. This substitute for gold suffices in all ordinary times, but there is always the contingency, however remote, that a country may be driven off the gold standard by some exceptional event such as war, and that credits ordinarily payable on demand in gold may suddenly become incapable of withdrawal in that form. Where notes are freely convertible into gold, as in this country and the United States of America, the prescribed cash or metallic reserve should consist of gold and gold alone. Additional expense is necessarily incurred by the Banks in these cases, as a larger part of their resources has to be kept in actual metal, but this is part of the price paid for the maintenance of a free gold market without which no country could act as an international centre of finance.

✓ Insistence on adequate reserves is the great safeguard against over issue, but no system however carefully devised can ensure that the Central Bank will never find itself in difficulties. If in the face of a crisis leading to a rush on the Bank, the reserve requirements are rigidly preserved, the Bank may be unable to meet the demands made on it, although it has gold in its possession. In the last resort it is more important to use the gold than to keep the legal reserve percentage intact. Consequently, many Central Banks are allowed to reduce their reserves below the normal minimum on payment of a tax, graduated so that it increases as the reserve percentage falls. At the same time the Bank is generally required by law to raise its discount rate by specified amounts. This latter requirement is not found in all cases, but it is a foregone conclusion that with a seriously reduced reserve the rate of discount would be raised as a matter of course. The introduction of a graduated tax on the infringement of the standard reserve is intended to prevent the Bank from benefiting by the raised discount rate. The imposition of this tax will not, however, necessarily act as a deterrent against the reduction

of the reserve, as the amount of the tax is likely to be insignificant from the point of view of the balance sheet of the Bank, and in many instances it is illusory as representing at least in part a payment that would otherwise come to the State through its share in the profits of the Bank. Practical experience of the working of the note tax is not extensive, but regulations on the above lines are found in Germany, Austria, Hungary, Czechoslovakia, South Africa, Denmark, Chile and Colombia. In Germany the agreement of the General Council, with not more than one dissentient vote, is required before the reserve requirements can be abrogated. In the United States of America the sanction of the Federal Reserve Board, and in South Africa and Estonia of the Government is necessary. Such arrangements are not, however, confined to countries when the minimum reserve is fixed on a percentage basis. In Japan, as in the United Kingdom, there is a fixed fiduciary issue, limited normally to 120 million yen. But if an increase in the circulation of money is deemed necessary in view of the condition of the market, the Bank of Japan may, with the sanction of the Ministry of Finance, issue notes against Government Loan bonds, Treasury bills or reliable commercial paper in excess of the above amount, on payment of a tax which is fixed by the Minister of Finance but may not be less than 5 per cent. An arrangement on similar lines exists in Norway.

It will be noticed that some of the Banks referred to above can set aside the normal limitations on their note issue at any time on their own initiative; in other instances the permission of a Government department or controlling authority is necessary. The need for superior sanction introduced in these latter cases seems desirable, as it emphasises the importance of the emergency and enables the authority concerned to associate its consent with any conditions it may deem advisable. This has always been recognised in British practice. Prior to 1914 the only way by which the Bank of England in times of crisis could increase its fiduciary issue was through the suspension of

the Bank Act by Parliament, and it was therefore open to the Government of the day to lay down its requirements as to the rate of discount as a condition precedent to the application to Parliament. By the Currency and Bank Notes Act, 1914,¹ the Bank of England and the Scotch and Irish Banks of Issue were permitted to issue notes in excess of the limit laid down by law so far as this might be authorised by the Treasury, and subject to any condition attached to that authority. The Committee on Currency and Foreign Exchanges after the War (Cunliffe Committee) in their first report recommended the continuance of this arrangement, subject to the qualification that it should be obligatory to inform Parliament at once by means of a Treasury minute laid before both Houses of any action taken.² This gives Parliament an opportunity for discussion, and though the increase in the fiduciary issue will already be a *fait accompli*, it must be remembered that even with the pre-war system the emergency conditions which necessitated the suspension of the Bank Act might call for immediate action on the part of the Government in advance of the approval of Parliament. The difference in the machinery is therefore less than might appear at first sight, but the two methods may have different effects on the attitude of the Bank and of the public. It might be suggested that the efforts to avoid any increase in the fiduciary issue would possibly be less strenuous if it can be authorised by an executive department as a part of recognised procedure than if the sanction of the Legislature to the suspension of an Act of Parliament were required. This would obviously be a disadvantage. On the other hand, if the increase in the fiduciary issue can be authorised by the Executive, the situation may be deprived of the catastrophic appearance that is inevitably associated with the temporary suspension of an Act of Parliament, and the psychological effects of

¹ See Appendix II., No. 1.

² The Committee also recommended that it should be provided by statute that any profits derived from the excess issue should be surrendered by the Bank to the Exchequer.

this difference in atmosphere may be of genuine practical importance. ↘ ↙

It remains to consider the regulation of the note issue apart from the reserves. If it is to fulfil its functions satisfactorily the note issue must be capable of being quickly adapted to the needs of the moment, and the method by which the notes are issued and the securities, other than gold, on which they are based may have an important influence in this connection. This can be most readily illustrated by the position in the United States of America before the passing of the Federal Reserve Act. The notes of the national banks were issued against Government United States bonds of an equal par value. As the bonds stood for many years at a premium, the profit made by the banks on the transaction were small. They therefore tended to increase their note issue when the price of Government bonds fell, and to sell bonds, thereby decreasing the note issue, when the price rose. Thus the price of Government debt rather than the trade needs of the country became a governing consideration in regulating the volume of notes. The disadvantages of this system were intensified by the fact that, as experience showed, the price of Government bonds often rose in times of trade prosperity and fell when trade was depressed. Thus it frequently happened that when trade was slack and currency should have been contracted the banks were inclined to increase their note issues for the sake of the greater profit. Conversely, when trade was active and the need for currency increased, the banks found it least profitable to issue notes and this inelasticity of the note issue in times of expanding trade led to serious practical difficulties.¹ This serves to demonstrate the evils that may arise when the issue of notes is in the hands of profit-making organisations, and the importance of ensuring that it shall by some means be related to the real trade needs of the moment. The method now adopted by the Federal Reserve System is the issue of notes, other than those covered by the gold reserve, against

¹ Kemmerer, *The A B C of the Federal Reserve System*, pp. 11-15.

✓collateral in the form of notes, drafts, bills of exchange and acceptances which conform to certain requirements under other sections of the Federal Reserve Act; that is to say, notes can only be issued against paper which represents genuine commercial transactions, and which is automatically liquidated on their completion. Similarly, in Germany the notes not covered by the cash reserve are held against discounted bills or cheques of a type that the Bank would be able to accept for discount. Regulations on these lines are found in most countries where the reserve is fixed as a percentage of the total note issue.

The notes of a Central Bank are created ordinarily with the object of serving as a legal tender throughout the country. This may be appropriately specified in the Bank's charter, as it is in the case of Germany, Japan,¹ Poland, Chile and elsewhere. In countries on a gold basis where the Central Bank is obliged to convert its notes on demand either into gold or foreign currency, a note, even if otherwise legal tender, cannot be a legal tender in payment by the Bank itself. Thus the charter of the South African Reserve Bank lays down that no tender of a note is a legal tender by the Bank. The point is covered in a number of cases of which Germany and Chile are typical, by the obligation on the part of the Central Bank to redeem its notes in gold or foreign currency, since the holder of notes, whether received direct from the Bank or other quarter, can always ask to have them so exchanged by the Bank in accordance with the law. This right of conversion into gold, when it is in force, should normally be exercisable either at the Head Office of the Bank or its branches, but in the case of branches provision may be made, as for example by the Netherlands Bank and some other Central Banks, for a brief space of time, *e.g.* twenty-four hours, in which to obtain gold from the Head Office. Alternatively, as in the case of Chile, payment may be made in drafts at par on the Head Office. This is merely a precaution in case of a local shortage in the supply of metal, which is more suitably stored in bulk at the Head

¹ In Japan the point is dealt with in the Convertible Bank Note Regulations.

Office. Failure to redeem notes in specie or foreign currency, unless due to *force majeure* and recognised by the State as such, indicates, of course, a breakdown of the whole central banking scheme. In such circumstances, as also for any other breach by the Bank of an essential condition in the charter, the State should have the right to step in and to forfeit the Bank's privileges. Such a situation is expressly provided for in some charters, for example, those of Austria, Hungary, Czechoslovakia and Chile. In Chile the law provides with almost brutal frankness that in the event of a failure by the Bank to redeem its notes as provided, it shall be declared "bankrupt on account of suspension of payments" and shall be liquidated in accordance with the law. But it goes without saying that no Government could do otherwise than intervene if the monetary system collapsed, not owing to forces beyond control but owing to the incapacity of the Central Bank to discharge its responsibilities. The whole position would have to be reviewed, and the Government should be free to take action regardless of any previous commitment to the Bank. In practice the relations between the Bank and State should be such as to preclude any failure by the Bank to observe the terms of the Charter unless the departure is previously authorised by the State in recognition of compelling circumstances.

The restrictions imposed on Central Banks in the matter of the issue of notes and the regulations regarding cover have special reference to the necessity of ensuring as far as possible against the risks of over-issue. But there are other matters concerning the circulation of notes in which the State cannot disinterest itself although it may hand over to a Bank the task of regulating the issue itself. It is accordingly a common feature to prescribe rules regarding the denominations of notes, or to lay down in general terms that these should be settled between the Bank and the Government. In Japan the denominations are fixed by the Convertible Bank-note regulations. In Poland and Chile they are to be fixed by the Bank with the approval of the Government. In South Africa the denominations are to be

prescribed by the Treasury. The exact method is of minor consequence. The important thing is to secure that the Government should have a voice in determining the denominations of currency in the form of notes, in which the business of the country will be conducted. In the United States the Controller of the Currency provides the plates for the printing of notes and supplies the notes themselves. The form and material of the notes may properly be subject to Government approval, even in cases when the Central Bank is in charge of the issue itself. No State can be indifferent to the appearance of its currency, which must be designed with view to security against forgery and also with view to aesthetic effect. The Bank should also be definitely required to maintain the quality of the circulation for reasons of convenience and hygiene. Torn, worn or dirty notes should not be reissued. Typical references to this matter are to be found in the charters of the Reichsbank and the National Bank of Czechoslovakia.

Finally, the advisability of imposing some form of taxation in the ordinary fiscal sense on the note issue remains to be considered. This question is a part of the broader question of the profit-sharing arrangements between the Central Bank and the State which is discussed in Chapter III. The modern tendency is to abandon specific taxation on particular parts of a Central Bank's business and for the State to take instead a share of the Bank's profits. If specific taxes on notes are levied, a smaller sum will accrue to the State through its share in, or appropriation of, the residual profits. There is a certain simplicity and convenience in allowing the whole question to be dealt with in a comprehensive profit-sharing scheme, and in the case of a unique institution like a Central Bank exemption from Government taxation is free from the objection that it involves unfair advantage in competition.

CHAPTER VI

RELATIONS BETWEEN THE CENTRAL BANK, COMMERCIAL BANKS AND THE MONEY MARKET

THE Governor of the Bank of England, in the course of his evidence before the Royal Commission on Indian Currency and Finance, gave the following reply to a question as to the duties of a Central Bank :

✓ { It should have the sole right of note issue ; it should be the channel, and the sole channel, for the output and intake of legal tender currency. It should be the holder of all the Government balances ; the holder of all the reserves of the other banks and branches of banks in the country. It should be the agent, so to speak, through which the financial operations at home and abroad of the Government would be performed. It would further be the duty of a central bank to effect, so far as it could, suitable contraction and suitable expansion, in addition to aiming generally at stability, and to maintain that stability within as well as without. When necessary it would be the ultimate source from which emergency credit might be obtained in the form of re-
discounting of approved bills, or advances on approved short securities, or Government paper. } ✓

Some of the grounds for the view that a Central Bank should be " the holder of all the reserves of the other banks and branches of Banks in the country " were referred to in Chapter I., where emphasis was laid on the advantages to be derived from the concentration of banking reserves in the hands of a Central Bank, so that they might be mobilised for use at any threatened point. It is only by the concentration of the banking reserves of the country in this way, and by placing on the bankers' bank the obligation

of maintaining extreme liquidity, that the availability of the reserves can be assured against a time of crisis. If a Central Bank is to be in a position to control credit, it must have an unchallengeable voice in deciding the volume of credit to be available from time to time. If the banking reserves of the country are in the hands of a Central Bank, it is able to regulate the credit position on its appreciation of the situation as a whole and in the light of changing developments. If, on the other hand, reserve balances representing potential credit are held by the commercial banks themselves, it would be easy for them to pursue a credit policy independent of that of the Central Bank, and possibly conflicting with it. The very idea of a Central Bank presupposes that the commercial banks will deposit their cash resources, other than till money, with it, and that a system will be established under which the commercial banks will not counter the credit policy of the Central Bank by any action on their part. If the commercial banks were to set themselves deliberately to oppose the policy of the Central Bank, for example, by expanding credit when the central institution was aiming at credit restriction, it would obviously be possible for them, in certain conditions and subject to limitations imposed by the necessity of not compromising their present or future stability, to neutralise, at least temporarily and to a partial extent, the action of the central authority. It is, therefore, important to recognise the part played by the co-operation and participation of the commercial banks in the scheme of credit control, and it follows that contact, however informal, should at all times be maintained between them and the Central Bank. The commercial banks, which finance the business of the country, are entitled to expect of the Central Bank that it will give careful consideration to their views on matters of common concern, subject always to their recognising that when the Central Bank, with its special responsibilities, has formulated a line of credit policy, their own policy should be made to conform with it. The situation may be illustrated from practice in the United

Kingdom. The cash reserves held by the commercial banks may be regarded as a percentage of their liabilities to the public, and though the banks have no uniform ratio the percentage held in the form of cash and balances with the Bank of England is in the neighbourhood of 10 to 15 per cent of deposit liabilities.¹ Though this proportion is higher than is needed for the purpose of bank working, that is, for the requirements of clearing and till money, the fact that the banks have laid a restriction on themselves in the matter of the cash reserves they hold, involves a practical limitation on their initiative in creating additional credit. At the same time, apart from the obligation of maintaining the cash ratio, they have no inducement to contract credit, seeing that this would entail a reduction of profits. Thus the decision as to whether expansion or contraction of credit should be effected rests with the Bank, which by its credit policy or by its operations in bills or securities increases or decreases the market supplies of cash, thus permitting an expansion or compelling a curtailment of the volume of credit. Before the war the action of the Bank of England in this matter was directed mainly by the strength or otherwise of its reserves. At the present time, as is evident from the gold policy of the Federal Reserve Board and of the Bank of England, other considerations, such as the preservation of stability in business conditions and prices, exercise greater weight than the mere proportion of gold held.² ✓

As the credit policy of a Central Bank finds its expression through its effect on the cash position and lending capacity of the commercial banks, the question arises whether the

¹ Dr. W. Leaf, *Banking*, p. 129.

² Cf. "Federal Reserve Credit policy in 1926 was formulated with reference to the business and credit conditions that prevailed during the year, as briefly described in the preceding section of this Report", and "Thus the credit policy of the Reserve System in 1926, a year of stable conditions in business and in credit, was to maintain the discount rates at the reserve banks unchanged at 4 per cent, except for adjustments at the New York Bank, and to continue the system's open-market investments with relatively small fluctuations, near the level prevailing at the opening of the year" (Annual Report of the Federal Reserve Board for 1926).

Central Bank's discount and loan operations should be restricted by its charter to operations with the commercial banks. In other words, the suggestion is that the Central Bank should not enter into direct relations with the general market. Even on the theoretic side such a rigid conception of the requirements of a Central Bank is defective. The state of the exchanges, excessive speculation or other unhealthy symptoms of trade may indicate the need for credit restriction, at a time when the resources of the commercial banks are large enough to make them virtually independent of the Central Bank. On such occasions the mere raising of the discount rate, already *ex hypothesi* out of touch with market conditions, would be fruitless as a check. If, therefore, the Bank seeks to reduce the market supplies of money, the corrective is to be applied by the sale by the Central Bank on its own initiative of bills or securities. The payment for these has the effect of reducing the resources of the commercial banks and of transferring them to the Central Bank. The process has only to be continued until the Bank's rate of discount becomes effective, so that it is again in a position to dominate the market. These open market operations are a most potent weapon in the hands of a Central Bank; for cash to a commercial bank is the base on which an inverted pyramid of credit is raised to several times its volume. A diminution of available cash supplies, therefore, quickly forces a policy of credit restriction on the commercial banks. But it is not only for this purpose that open market operations are of importance. The purchase of bills and securities, by which the cash of the commercial banks is increased, forms the quickest method by which a Central Bank can of its own motion relieve a sudden stringency or prevent its coming by anticipatory action.

Further, unless the power of direct dealing is provided, the Central Bank may find itself on occasions left high and dry with no adequate outlet for its resources, and although profit-earning is an entirely subsidiary consideration with a quasi-public institution like a Central Bank, it would be

difficult to justify restrictions which had the effect of inhibiting the Bank from employing its resources remuneratively, under appropriate conditions and safeguards, provided that the fulfilment of its primary function of credit control is in no way impeded thereby. Actually for the reason already emphasised, the fulfilment of this function, so far from being impeded, is positively assisted by the power of dealing direct with the market. This has been the experience in the United States, where increasing importance attaches to the open market operations of the Federal Reserve Banks in the exercise of credit control.¹

As regards the initiative of the Bank of England, it is in constant relation with other constituents of the money market besides the Joint Stock Banks whose balances it holds. Certainly the Bank could not function efficiently unless British practice underwent substantial change, if it had not the power of dealing direct with the bill-brokers and discount houses, and it is well known that by its open market operations the Bank is able to maintain relatively stable conditions when carrying out large money operations connected with Government and international finance, and to mitigate the disturbances that would otherwise be caused by large transfers of funds between the State and the taxpayer, and by other factors of a similar type.

While the power of direct dealing with the market is a necessary instrument for efficient central banking it is reasonable that a Central Bank should exercise this power with discretion, always regarding it as subsidiary to its main purpose of controlling credit. The cardinal duty of a Central Bank is to safeguard the currency standard and to maintain sound conditions in the money market. The efficient discharge of this duty imposes on the Bank the obligation of conducting its credit policy with a high degree of independence, unhampered by any particularist interest in actual trade and commerce. For this reason it must not be directly associated or identified with that class of business connection inseparable from ordinary commercial banking.

¹ See *Report of the Federal Reserve Board*, 1923.

Though in the long run there can be no conflict of interest between the sound financial policy which it is a Central Bank's object to ensure and the requirements of trade, a Central Bank may at times have to enforce a credit policy unwelcome to merchants, manufacturers or the commercial banks. This is likely to be the case especially when a contraction has to be brought about in the volume of credit, as traders are naturally averse to measures involving a curtailment of available facilities and a readjustment of the conditions of production entailed by a movement towards a lower level of prices. In order that the Central Bank may carry out its task with the maximum degree of freedom and impartiality, it should be exempt from the commitments that direct credits to industry involve; and since the customers of a Bank look to it for credit, it is desirable that a Central Bank should be free from the pressure to lend that the custody of private accounts may bring in its train. This points to the advantage of imposing restrictions on a Central Bank in the matter of the receipt of deposits from private customers. This view has been adopted in the Federal Reserve Act, which does not allow the Federal Reserve Banks to receive deposits from private persons. Generally speaking, in other cases private deposits are not prohibited by law, but limitations on the Central Banks' business of this class arise indirectly as a consequence of the provision that they should not be allowed to pay interest on the deposits they receive. The question is further discussed in the following chapter.

The grounds for excluding Central Banks from such association with industry as is legitimate in the case of commercial banks are strengthened by the consideration that the business of a Central Bank must be conducted on the safest lines and on a basis which will maintain its resources in the highest degree of liquidity. Avoidance of direct commitments to commerce will keep down bad debts, and will assist liquidity, as loans to traders have a well-known tendency to require renewal. It also has the advantage that it limits the competition between the

Central Bank and the commercial banks. The establishment of harmonious relations between the Central Bank and the commercial banks will clearly be helped by demarcating their spheres of operations as far as possible. The desirability of this is emphasised by the fact that the Central Bank not only generally has the important advantage of holding the Government balances and the balances of the commercial banks free of interest, but it also on occasion has to advise the commercial banks as to the line of action that it is desirable on national grounds they should follow.¹

The Central Bank's credit policy, as already shown, will be worked out through the transactions of the commercial banks. The existence of a sound Central Bank, apart altogether from the general benefits it confers on a country, brings special advantages to the commercial banks, in that they can look to it for guidance as regards policy, and for facilities by which their cash reserves may be increased on occasions of need. Rediscounting at the Central Bank of approved commercial paper or the grant of loans by it on approved short term securities are the recognised means by which a commercial bank that has conducted its business on prudent lines can strengthen its cash position at the shortest possible notice, and the grant of these facilities by the Central Bank is a unique service that it can render to the commercial banks. It gives a confidence which could probably not be supplied by any other means. The extent to which these facilities may be demanded in a special time of crisis has been illustrated by the figures regarding Japan on page 10. Though this was happily a quite abnormal situation, it serves to demonstrate in an extreme form the nature of the services that a Central Bank can, and does, render to the commercial banks in differing degrees from time to time as the need for temporary additional credit

¹ In Czechoslovakia the duty is laid on the Bank, "in the interest of orderly banking, to ascertain the amount of the commercial credits throughout the State and control them, in order to prevent as far as possible their misuse". For this purpose the Bank is authorised to require reports from outside parties.

arises. This does not mean that the Central Bank should act without discrimination or a careful scrutiny of each case. Were it to do so there would be no incentive to the observance or development of sound banking tradition. It is no criticism of a Central Banking system to point out that in countries where Central Banks are established bank failures and business crises occur. Advocacy of a central banking system rests not on the view that it is a panacea or a substitute for prudent banking, but on the view that it affords the best basis for a sound banking and business economy and the surest safeguard for the stability of the currency.

In examining the banking activities of the Central Banks in different countries and their relations with the commercial banks, it is convenient first to refer to the situation in the United Kingdom, where banking evolution has proceeded on lines different from elsewhere. Central banking theory is a comparatively modern development, and though the importance of regulating the output of paper currency was early recognised, owing to the obvious facility for its abuse, the banking side of the Bank of England was left free from statutory regulation. Hence there are no legal restrictions on the Bank of England's banking business, apart from its note issue. Under the British system the joint stock banks do not look directly to the Bank of England as the source for increasing their cash supplies when occasion requires, and the assistance of that institution is invoked not by the rediscounting of bills by the banks, but by the withdrawal by the banks of funds lent by them at call or short notice on the market, with the result that bill brokers and other borrowers have to make recourse to the Bank of England to obtain the means of repayment. Thus the Bank is, as suggested in the passage quoted at the beginning of this chapter "the ultimate source from which emergency credit" is to be obtained by the market "in the form of rediscounting approved bills, or advances on approved short securities, or Government paper". Under American and Continental practice the arrangements for the supply of temporary additional credit are in result the same, though

they differ in detail as the commercial banks rediscount directly with the central institution.

The systems of Central and Reserve Banking established on the Continent of Europe and in the United States of America differ from the English system not only in respect to the relationship of the Central Bank with the commercial banks, but also with regard to the legal regulation of banking business. Intermediate in time, the Continental system is also intermediate in type. The nature of the business that the Continental Central Banks and the Federal Reserve Banks may undertake is strictly defined in each case, but the form of the governing laws or charters as well as the line of development shows a difference of conception in the framers of the two sets of institutions as regards the relations to be established with the public and the commercial banks. In the case of the Bank of France and the Reichsbank with their numerous and widely distributed branches there was obviously never any question of restricting their ordinary business dealings to banks and cognate institutions. The Bank of France was intended from the outset to bring banking and discount facilities within the reach of the small tradesman as well as the great corporation, and the governing statutes make no distinction in terms between the business with the other banks and business with the public. Generally speaking this procedure has been followed in drawing up the constitutions of other European Central Banks.

Closer conformity to the view that the charter of a Central or Reserve Bank should be drawn with special view to its position as a bankers' bank is realised in the typically American pattern. The Federal Reserve Act, and the law constituting the Bank of Chile, which was drawn up in the light of United States experience, define in the first instance the character of the business to be transacted between the Central Banks and the commercial banks. The nature of the business to be transacted with the public is separately prescribed.

The Federal Reserve system differs also from the European system of central banking as regards the obligations

imposed on the commercial banks in relation to the central institution. When a commercial bank keeps the account of a private customer, it is open to it to require a certain minimum balance to remunerate itself for the labour and responsibility involved, or alternatively to levy some charge on the customer in substitution. It may be asked: Should a Central Bank require from the commercial banks a balance of an amount prescribed with relation to their deposit liabilities and should this requirement in respect of the balance be laid down by law or should it be regulated by negotiation between the two parties? The Central Bank which performs vital services for the whole banking system of the country is entitled to expect material as well as moral support from the constituents of that system, who in their turn look to the Central Bank for assistance at times of stress. In England, France and other European countries the question of the amount of the balances to be held at the Central Bank by the commercial banks is left free from statutory regulation. But in the United States, certain of the South American republics and South Africa a different policy has been followed. In the United States the member banks are required to keep as a minimum balance with the Reserve Banks an amount representing, according to the place where the member bank is situated, 7 to 13 per cent of their demand deposits and 3 per cent of their time deposits. In Chile the corresponding proportions are 20 per cent and 8 per cent, and in South Africa 10 per cent and 3 per cent for demand and time liabilities respectively.¹ In Colombia the member banks are obliged to keep certain statutory reserves against their deposit liabilities, and non-interest-bearing deposits in the Central Bank are reckoned as legal reserves up to the amount of half their legal reserve requirements. When, as in the United States, Chile and Colombia, the commercial banks subscribe the whole or part of the capital of the Reserve Bank, their obligatory deposits

¹ A demand deposit or liability for this purpose comprises in the three countries named deposits or liabilities payable within thirty days, and time deposits all deposits or liabilities payable after thirty days.

contribute to the earning of a dividend from which they benefit. Moreover, the prescribed reserve balances are not necessarily immobilised as member banks in the United States of America may, under rules laid down by the Federal Reserve Board, draw upon them for meeting existing liabilities, provided that no new loans are made or dividends are paid until the statutory balance is restored. In Chile provision also exists for a reduction of the balance below the prescribed proportion, subject to the payment by the Bank of a fine varying from 2 to 4 per cent on the amount of the deficiency. In South Africa the law prescribes a penalty of 10 per cent per annum, recoverable by action in a competent court, on the amount of a deficiency in the prescribed balance with the Reserve Bank. In that country the commercial banks were required to contribute to the original subscription of capital of the Reserve Bank, but they are no longer obliged to keep a part of their capital so invested. This is now left to their option.¹

In the case of the United States and other countries which have followed its example the provisions discussed above are part of a scheme for the control or supervision of commercial banking which may be exercised either through the Reserve Bank organisation as in the United States or by a specially constituted official agency as in Chile. In such a scheme detailed rules regarding balances to be held with the Reserve or Central Bank have an appropriate place. But such rules may create a sense of false security as suggesting that compliance with them is sufficient to maintain a sound position, and further experience must be awaited before it is possible to pass judgment on the success or otherwise of schemes for the official supervision of banking. The main advantage of statutory deposits would seem to be to develop the Central Bank as a bankers' bank *par excellence*. On the other hand, a Central Bank must in the last resort justify itself by its work, and if its authority is sufficiently established, it is probably better, as in Europe,

¹ *Vide* evidence before Commission of Enquiry on the resumption of gold payments in South Africa, 1925 : Questions 3389-3392.

that the relations between the Central Bank and the other banks should be worked out by negotiation between them with the minimum of legal stipulation, and that recourse should only be had to legislation if other methods of achieving the desired result are not sufficiently encouraging. A system based on legal requirements necessarily sacrifices an element of elasticity in the relations between the central and commercial banks, and militates against a diversity of arrangement to suit the requirements of different cases. The conditions in each country must, however, clearly be taken into account when considering which system is the more suitable. In European countries, where the number of commercial banks is comparatively small, sufficiently close and satisfactory relationships can be secured between the Central Bank and the commercial banks without defining them by law, but the problem was different in the United States where the number of commercial banks involved was so great¹ that more precise methods for linking them with the central organisation may well have been necessary. In some instances when the Central Bank is superimposed on an existing banking system the commercial banks who have maintained themselves previously without it may perhaps not fully appreciate its advantages and, jealous of their position, may question the expediency of the innovation. To overcome this prejudice, it may be necessary to insist on a scheme for obligatory deposits by the commercial banks with the Central Bank, for if these deposits are withheld the central banking organisation cannot achieve its full purpose. In this connection it is also worth noting the influence that the system of compulsory deposits with the Reserve Bank may have on the development of a sound standard of banking. If the reserves of the commercial banks have been deposited with one another and used for loans for speculative purposes, as was the case formerly in the United States of America, the legal requirement of a specified deposit with the central organisation has material advantages. In the view of Professor Kemmerer the "divorcing

¹ Nearly 10,000 banks are now members of the Federal Reserve system.

of the legal reserves of over 9500 commercial banks from the speculative and capital loans of the stock market—is one of the big achievements of the federal reserve system ”.¹

It is natural to inquire how far these distinctions in the matter of the statutes as between the Continental and American type of Central Bank have practical effect in working. Although the charters of the Continental Central Banks handle the question of the Bank’s business without distinguishing between business with commercial banks and with the public, the nature of the business to be performed shows it to be largely of a rediscount character, and such Banks as, for example, the Bank of France and the Reichsbank, in addition to their other functions, definitely discharge the duties of a bankers’ bank. On the other hand, it is to be noted that while emphasising their rôle as bankers’ banks, American practice allows the Federal Reserve Banks to deal in eligible paper, securities, gold and exchange with the open market. This also applies to the Central Banks in South America based on the United States pattern. The dealings of the Federal Reserve Banks with the market reach large dimensions, and apart from the non-admissibility of private deposits in their case it would seem that in working practice the difference of form in the governing constitution of the two types of Central Bank tends to apply rather as one of mode of expression than of kind. If it is recognised that a Central Bank to function efficiently must be allowed for reasons already stated to conduct operations in the open market,² the question as to the kind of business that the Banks should, in the public interest, be allowed to perform is likely to prove in the end of more practical significance than the definition of those with whom they should perform it, since the character of the business will itself largely determine the parties with whom it is conducted.

¹ Kemmerer, *The A B C of the Federal Reserve System*, p. 37.

² This point was emphasised in the Report on the resumption of gold payments by the Union of South Africa by Prof. E. W. Kemmerer and Dr. Vissering, § 46 *seq.*: U.G. No. 13, 1925.

CHAPTER VII

DEALINGS IN GOLD AND FOREIGN EXCHANGE, DISCOUNTS, LOANS AND OTHER BUSINESS

THE efficient functioning of a Central Bank depends in the main on the restriction of its sphere of operations to business proper to a bank entrusted with a great national responsibility, and on the punctilious adherence by the management in letter and spirit to the rules laid down for this purpose. The sections in the Bank's charter dealing with this branch of the question are thus of the greatest importance. If any weak joint is allowed in the frame of principles that regulate the permissible business, the whole structure may be fatally compromised. Hence, as will be seen from the abstracts of the charters in Appendix I., there is a striking similarity in the general range of activities allowed. While in some cases the authors of the statutes have felt obliged to make concessions to local conditions which go somewhat beyond the dictates of strict doctrine, it will be apparent, especially in the case of the more recent charters based on the ripest experience, that effort has been made to confine such departures to actual necessities, and in some cases to limit them in point of time. As regards the older Central Banks, it must always be remembered that though the charters may seem unduly wide the practice of the Banks is in advance of their regulations, and that in working they rigidly eschew many classes of business that could be brought within the range of their permissible activities as technically defined. In the case of the Bank of England, whose banking as distinguished from note-issuing operations are virtually unrestricted by law, it is probably true that if a charter

were drawn up in the light of actual practice it would, allowing for the special conditions of the London money market, conform in regard to loan and discount operations closely to what compliance with central banking theory requires and with the actual prescriptions of the more recent statutes.

A broad statement of the general scope of a Central Bank is to be found in the first clause of the Bank Law of August 1924 regulating the Reichsbank, which defines the duties of the Bank as being "to regulate the circulation of money in the whole area of the Reich, to facilitate the clearance of payments and to provide for the utilisation of available capital". The main operations in which a Central Bank engages derive from these responsibilities, and are set forth in a summary form below :

- (1) The issue of notes.
- (2) Dealing in precious metals and foreign exchange.
- (3) Discounts, loans and advances.
- (4) Deposit business, especially in relation to commercial banks, and the organisation of arrangements for clearing.

Of the above, the Bank's policy in regard to heads (1) to (3) has a special connection with the regulation of the monetary circulation and credit and the maintenance of the established parity of the currency. An efficient discharge of its responsibilities under these heads will be reflected in the conservation of the money resources of the country and the proper utilisation of available credit. The provisions by which the note issue is regulated by various Central Banks and the relations between the Central Bank and the State have been separately discussed. The present chapter is concerned in particular with (2), (3) and (4). Reference will also be made to certain subsidiary business, such as the execution of transactions for third parties and the receipt of objects of value, securities, etc., for safe custody, which Central Banks are authorised in many cases to undertake, and in conclusion a brief account will be given

of the definite restrictions that in some instances have been imposed upon their activities.

DEALING IN PRECIOUS METALS AND FOREIGN EXCHANGE

So long as gold is the standard of value it is necessary that some authority in the State should be required to buy gold or gold exchange at a price fixed in relation to the established parity, and to sell at a price correspondingly determined. Only if such provisions exist is there security that the local currency will neither rise above nor fall below gold parity by more than a small percentage representing the cost of moving bullion to or from the country concerned. Hence the law or charter of a Central Bank should provide that the Bank should be able to deal in gold. In the case of the United Kingdom the Bank of England is under obligation to buy gold at the price of £3 : 17 : 9 per ounce standard, and to sell it at £3 : 17 : 10½ per ounce standard in quantities not less than 400 fine ounces. The object of imposing a quantitative limit is to ensure that the demands for gold on the Bank should be those arising from banking requirements for foreign remittance, and that demands for gold of a retail character for domestic consumption should be supplied through other channels. Under the Gold Standard Act of 1925,¹ the Bank is under no obligation to issue gold coin, and the great importance of economising the circulation of gold is thus recognised. The usual method of expressing the Central Bank's obligation with regard to the sale of gold takes the form of requiring the Bank to redeem its notes in a specified weight of fine gold, and this is the line taken in drafting the charters of various Central Banks, *e.g.* Austria, Hungary and Poland, which at present are working on the basis of a gold exchange standard, and are required to direct their policy towards the resumption of specie payments to be introduced hereafter, when the ground has been duly prepared. Meanwhile, the obligatory repayment of notes in gold is in abeyance.

¹ See Appendix II.

As regards the compulsory purchase of gold at a fixed price in local currency, this is free from the risks and responsibilities attaching to the obligatory sale and has, in consequence, been adopted by certain countries working at present on a gold exchange basis and aiming at the adoption of specie payments hereafter. In cases where the State is prepared to issue gold certificates or gold currency in exchange for gold bullion, the obligation to buy gold at a stated price naturally devolves on the State. This is the case in the United States of America. Similarly, in the United Kingdom the Royal Mint was formerly under an obligation to buy gold from the public at £3:17:10½ per ounce standard, the small difference between this figure and the Bank of England's price representing an interest charge as the seller of gold to the Bank obtained payment forthwith, while a sale of gold to the Mint involved some delay between the delivery of the gold and the receipt of the coined sovereigns. By the Gold Standard Act of 1925 the right of the public to bring gold bullion to the Mint to have it assayed and delivered back in the form of gold coin was terminated. The right now applies only to gold brought to the Mint by the Bank of England. In the case of France the obligation to buy gold at a fixed price was also imposed upon the State, but the Bank of France formerly made a practice of buying gold "according to the tariff of the Mint", though it was not legally obliged to do so.¹ Before the war it was generally convenient for the Central Banks to buy gold at a price fixed in relation to the Mint par, even in cases where the legal obligation was imposed not on the Bank but on the State. Under modern conditions where a gold circulation is generally in abeyance, and gold bought is paid for in notes or bank balances, it is convenient to concentrate the obligation of buying and selling gold at fixed prices in relation to the currency standard on the Central Bank, which can pay for

¹ Cf. National Monetary Commission papers, United States of America. *Interviews on the Banking and Currency Systems of England, etc.*, 1914, p. 218 (Senate 61st Congress, 2nd Session. Document No. 405).

it in notes issued against the gold, and this is the course that has been recommended in the case of the proposed Reserve Bank for India. In this respect its practice will conform to the present position in the United Kingdom.

Central Banks are also normally authorised to deal in silver and in special cases, such as Russia and Lithuania, in platinum. Token silver currency is ordinarily provided through the Central Bank by the State, which retains the profits, and purchases of silver for coinage would therefore not be on the Bank's own account. Silver is a metal liable to serious fluctuations in gold value, and though the generality of Central Banks are authorised to deal in it, there is no reason for thinking that they do so. The power existing in some cases to issue notes against silver is open to criticism on similar grounds.¹ These powers are perhaps a survival of the bimetallic period. In a few cases, for example the Federal Reserve Banks of the United States and the Reserve Bank of Chile, only dealings in gold are allowed.

Closely connected with the function of dealing in gold is the function of operating in foreign exchange, ordinarily permitted to Central Banks. This has a special significance in the case of those countries which have elected to link their currencies with gold through the medium of one or more foreign currencies freely convertible into gold and exportable in that form. Owing to the cost of maintaining large supplies of inert gold, and to the desirability of restricting the world demand for gold, the adoption of the system has been greatly extended since the war. It represents the position in those countries, such as Germany and Belgium, where the redemption of notes may be effected *at the Bank's option* in gold or foreign currency representing the price of an equivalent amount of gold in the foreign country concerned, subject to a deduction corresponding to the cost of shipping gold thither from the home country. Thus, the Reichsbank, which is compelled to buy bar gold at the fixed rate of 1392 Reichsmarks for one pound fine, is under no

¹ The Bank of England has not utilised its powers to issue notes against silver since 1861.

corresponding obligation as regards the sale of gold, though it has been stated on behalf of the Bank that it is prepared to release gold if required. The Reichsbank is under obligation to pay its notes *at its option* :

- (1) in German gold coins of authorised weight and fineness at their par value ;
- (2) in gold bars of not less than 1000 reichsmarks and not more than 35,000 reichsmarks at their value in pure gold in terms of German gold coins of authorised weight and fineness ;
- (3) in cheques or orders to pay in foreign currency equivalent in value to the market value of the currency concerned in the matter as expressed in gold. . . . The Reichsbank may in such cases charge a commission. The said commission may, however, not exceed the amount representing the share of the amount paid in the course of transmission of large sums of gold to the place of business of the foreign bank concerned, together with interest.

An interesting example is provided by the Free State of Danzig, which has adopted a sterling exchange standard. The stability of the Danzig gulden in relation to the pound is provided for by the following requirements :

- (1) On payment at its counter in Danzig of a minimum sum of 1000 gulden in Danzig coin or bank-notes, the Bank must deliver pound cheques upon its pay-office in London, as long as the gulden are offered, at a rate of not more than 19s. 10d. for every 25 gulden.
- (2) On payment of pounds sterling at its pay-office in London, the Bank must deliver gulden cheques upon its pay-office in Danzig for amounts not less than 1000 gulden at a rate of not more than £1 : 0 : 1 for every 25 gulden.

This scheme, it is interesting to note, was adopted in November 1923 before the United Kingdom had itself returned to a gold standard.

It is evident that to enable such obligations to be fulfilled the Central Banks that function on these lines must be authorised to deal in foreign exchange, that is, foreign currencies and approved bills of short maturity payable in international centres of finance. The same observation applies to other Central Banks, such as those of Austria, Hungary and Czechoslovakia, which envisage an eventual return to obligatory gold payments but, meanwhile, are engaged in maintaining the parity of their currencies in relation to such international units as the pound and dollar. Thus, as from the inauguration of the National Bank of Czechoslovakia in March 1926, the currency of that country became legally stabilised within the limits of \$2.90 to \$3.03 per Czechoslovak crowns (C.Kr.) 100.

In several countries, which have sought to restore their financial position by stabilising their exchanges in relation to an external currency, attempts have been made to strengthen the position of the Central Bank by giving it a degree of control, greater or less in different cases, over the external trade of the country. The purpose is to enable the Central Bank to acquire foreign exchange resulting from export transactions, to influence import transactions involving a demand for foreign exchange, and to check speculative dealings. In Poland, for instance, the commercial banks agreed in 1926 not to accumulate large supplies of foreign exchange or to ask of the Bank of Poland more foreign bills or currency than are required to meet the economic needs of the country. They also undertook to hand over supplies of foreign bills and currency to the official Bourse or direct to the Bank of Poland.¹ In Italy banks with a paid-up capital of less than 100 million lire may only engage in foreign exchange business with the approval and under the auspices of the Banca d' Italia.² In Bulgaria the National Bank has been given complete control over all foreign payments. "Toutes

¹ See *Economic Review*, 30th April 1926. The Polish restrictions on transactions with other countries in foreign currency were abolished in November 1927.

² *Banca d' Italia Annual Report*, 1926, p. 43.

transactions portant sur les moyens de paiement étrangers (devises et billets de banque) sont effectuées exclusivement par la Banque Nationale de Bulgarie." Rates of exchange are to be fixed by the Bank, and the commercial banks' purchases and sales of foreign exchange "for real and justified requirements" are to be conducted through the National Bank, which will also control other external transactions, such as loans and discounts. These drastic powers, or indeed controls of a less rigorous kind, are impediments to trade and business and must as such be condemned. As expedients they are usually ineffective owing to the facility with which they can be evaded, and in cases where they have been imposed the aim should be to discard them as soon as possible, just as in the United Kingdom the embargo on external loans, which was maintained for a time after the return to the gold standard, was abandoned as early as practicable. A Central Bank must find in its credit policy, and not in direct intervention in the country's trade, the weapon for securing exchange stability, but these special arrangements deserve notice as a phase of the post-war methods of financial rehabilitation.

Apart from the cases of Central Banks whose charters definitely adopt a gold exchange basis and those which are actually working on this basis and may continue to do so for an indefinite period, the power to deal in foreign exchange has an important bearing for all Central Banks, including those under an obligation to issue gold on demand at a fixed price against tender of local currency. Before the war the Continental Central Banks habitually held foreign bills in their portfolio, and the practice has extended widely with the general suspension of a gold circulation and specie payments. It is now generally recognised that the power to deal in foreign exchange is necessary for efficient Central Banking, but a Central Bank should not embark on exchange operations purely for profit-making purposes, but only in so far as they are essential for the discharge of its duties as a Central Bank. The proceedings of the Bank of England as regards foreign exchange are not revealed, but it was stated before

the war that the Bank did not buy foreign bills and that it was not its custom to discount any bills payable in foreign countries.¹ As the Central Bank of a creditor country the Bank was able to draw gold, and as the leading gold centre in the world it was its policy to hold its reserves in that form. The war has introduced some new factors, and in particular has left the United Kingdom with the obligation of making large annual payments to the United States Government. Close relations have been established between the Bank of England and the Federal Reserve Bank of New York, and the two Banks act as agents for each other in their respective spheres. As regards the question whether the Bank of England actually holds any balances in New York under present conditions, it is only possible to say that there is nothing in the law that prevents it from doing so. So far as the Federal Reserve system is concerned, the Act definitely empowers the Federal Reserve Banks under regulations prescribed by the Federal Reserve Board to maintain accounts in foreign countries, and to establish agencies in such countries for the purpose of conducting certain transactions there.

If it is asked whether it is necessary or desirable that those Central Banks that are under an obligation to issue gold on demand should have the right to operate under appropriate conditions in foreign exchange, an answer of general application may be suggested. It is desirable to confine gold movements, which are expensive, to marginal needs so far as possible, that is to say, to the settlement of balances of payment which cannot be adjusted otherwise. A portfolio of bills payable in London or New York provides as effective and convenient a method as a bullion remittance of settling an international debit and is capable of employment before exchanges have moved to points involving an export of gold. Thus, the power to intervene in the exchange market enables a Central Bank to reduce

¹ See National Monetary Commission papers, United States of America. *Interventions on the Banking and Currency Systems of England, etc.*, 1910, pp. 22-23 (Senate, 61st Congress, 2nd Session. Document No. 405).

fluctuations in exchange rates and to promote exchange and business stability, one of the major purposes it is designed to serve. Moreover, the economy of gold itself, which a system of partial reliance on gold exchange by Central Banks permits, is in itself a definite advantage. These advantages are particularly apparent in the case of those Central Banks, and they are many, as was pointed out elsewhere, which reckon certain specified credits held abroad as the equivalent of gold for the purposes of cover to their note issues. Discretion is, of course, needed in the choice of these foreign assets, as there is a conceivable risk, though not, it may be hoped, an appreciable one in ordinary times, that even the strongest country in which such assets are held may be driven off the gold standard by *force majeure*. As the holding by a Central Bank of assets abroad involves a degree of dependence on the stability and permanence of financial policy in a country whose Government is beyond the Central Bank's sphere of influence, it is a question for the Bank to determine in the light of circumstances how it should divide its assets between those held at home and those held abroad. In settling this question the Bank should not emphasise unduly the gain from interest on assets held abroad in comparison with unproductive gold held at home. Though no rule can be prescribed, and each Central Bank must decide its policy with reference to its own circumstances, an increased measure of independence is itself an asset for which some sacrifice of profit is justifiable.

DISCOUNTS AND ADVANCES

The operations of a Central Bank, under the heads of discounts and advances, are of special importance in relation to its responsibilities, as it is by these activities that the supply of available credit is ordinarily regulated. Changes in the discount rate are habitually announced to the public as they are made. The rate in force should apply impartially and uniformly to paper of identical class, whether submitted at the Head Office or branches of the Bank. In framing

conditions for the business that a Central Bank should undertake, regard must in particular be directed to the considerations of security and liquidity. To function effectively a Central Bank requires to hold a portfolio of bills continuously maturing into cash, which in its turn may be converted into bills in unceasing process. The bill offers particular advantages over other forms of credit device from the point of view of a Central Bank. First, it reveals, or should reveal, to the expert the purpose for which the finance is required, thus enabling the Bank to distinguish between cases in which money is being sought for speculative purposes and those in which it is required for furthering the production or marketing of goods. Again, a bill is drawn for a stated amount, and has a stated date of maturity, when it must be met. The fact that a bill has a definite maturity enables a Bank to regulate its purchases according to its particular requirements from time to time. The degree of definiteness attaching to a bill as a formal document places it in a different category from a cash credit or advance, which, whatever time limit may be assigned to it in the first instance, is liable to continue under the pressure of the borrower for extended periods. Further, a bill is capable of endorsement by a theoretically unlimited number of parties, and the addition of other signatures to that of the acceptor, especially if these include a bank of established credit, converts the promise to pay of a single firm or individual into guaranteed paper of first-class quality. Lastly, a bill is a negotiable instrument, and when endorsed in the manner just indicated will be assured of ready marketability, so that it provides one of the requirements essential to the assets of a Central Bank, namely, that of free convertibility into cash. It is for these reasons in the interest of a Central Bank to encourage the development of an active bill market by every means in its power.

It is not surprising to find that the Federal Reserve Act, which contemplates that the supply and control of credit should be exercised mainly by the Federal Reserve Banks'

rediscounting of eligible paper for member banks, and by their open market operations, is much concerned with defining the range of paper admissible and has little to say on the subject of advances. There is no occasion to reproduce here the provisions of the Federal Reserve Act on the subject, which are summarised in the Appendix. In general the conditions that the Federal Reserve Act requires in paper eligible for discount or purchase by the Federal Reserve Banks are similar to those required by the charters of other Central Banks that have been framed in the light of modern experience, though it is to be remembered that the United States law emphasises specially the rôle of Federal Reserve Banks as banks of rediscount for commercial banks, and there is thus a more visible presumption, than is to be found in most other charters, that the bills rediscounted will bear a bank endorsement. In the case of the United Kingdom, as already mentioned, the joint-stock banks do not rediscount bills with the Bank of England. But this is a peculiarity of United Kingdom practice.

To comply with the tests of eligibility for purchase or discount by a Central Bank the paper should conform to certain requirements in respect of the purpose for which it has been created, its period of maturity and its quality. As regards purpose, the prime desideratum is that the paper should be drawn to provide finance required for *bona-fide* commercial purposes, which would cover outlay incidental to the production, transport and marketing of agricultural and industrial goods. Such bills are of their own nature self-liquidating, as the sale of the commodity provides funds for the payment of the bill. These requirements are not satisfied by paper drawn to finance the carrying of stocks and shares, and if any such paper is to be admitted as an asset of a Central Bank there is need for definition. The Federal Reserve Banks are, however, allowed to discount paper of not more than 90 days' maturity endorsed by member banks and drawn for the purpose of carrying or trading in bonds and notes of the United States Government. A similar provision, also limited to Government securities, is to be

found in the law applying to the Reserve Bank of South Africa. In the case of Chile, paper not exceeding 90 days' maturity, carrying as collateral high-grade mortgage bank or corporation bonds of a market value not less than 25 per cent in excess of the par value of the paper, may be rediscounted for the member banks, but the total of such paper bearing the endorsement of any one member bank must not exceed one-fourth of its paid-up capital and surplus. There is nothing corresponding to these provisions in the statutes of the Central Banks in Austria, Germany, Hungary, Poland, Czechoslovakia, Belgium and certain other countries, which apparently exclude such paper from their range of rediscounts. The laws of the Swedish Riksbank and the Netherlands Bank do not specify the kind of paper eligible for discount, but this should not be interpreted as meaning that the practice of those Banks is necessarily different from that of the others just cited. Their statutes, which are older in date, are, however, lacking in the precision which modern practice generally adopts. In some cases the statutes of Central Banks, for example in Austria, Hungary and Bulgaria, specifically provide for the admissibility to discount of public warehouse receipts or warrants, subject in other respects to the conditions applicable to bills.

The Banks are generally expressly authorised to rediscount securities and interest coupons of the State of strictly limited currency.

The extent to which a State may suitably be permitted to have direct recourse to the Bank for credit has been referred to in Chapter II. In the present context the question arises as to whether it is advisable to impose any specific limit on the Bank's operations in the way of rediscounting for third parties Government securities of short currency, such as Treasury bills or similar obligations. In Belgium, apart from certain securities representing the Government debt to the Bank and subject to amortisation, the amounts of Government obligations of a currency not exceeding 100 days that may be held in the Bank's portfolio at one time is limited to Frs. 100 million. Restrictions of

a somewhat similar character are also found in the case of the Central Bank of Chile. A specific maximum which may appear suitable at one time may, of course, become inappropriate at another as circumstances change, and any limitation is liable to be set aside in an emergency, since the refusal on the part of the Central Bank to rediscount obligations of the State with a currency not exceeding three months is hardly to be contemplated. But the existence of a maximum to the Central Bank's legal power to discount or make advances against Treasury bills would make it difficult for the Government to issue such obligations as the limit is approached, and the Bank is thereby placed in a strong position for putting pressure on a Government pursuing an improvident course of finance to return to sound practice. In the case of Japan the amount to be applied to the discount of Government bonds or notes and the amount of loans to be made against public securities are to be decided every ten days by the Administrative Board of the Bank, whose decision requires the approval of the Finance Minister. The invocation of the Finance Minister, an interested party, is open to obvious objection. The Central Bank, which is in continual touch with the market, is likely to be the best judge of the amount of floating debt that a State can safely maintain at any particular time as, if the amount becomes excessive, the demand on it for rediscounts is likely to increase rapidly with serious consequences to the credit position. In the draft charter of the Bank of Greece an attempt has been made to deal with this problem on comprehensive lines. The amount of Government Treasury bills to be discounted or accepted as collateral by the Bank is limited to a prescribed maximum. The total of direct advances to the Government is similarly limited. The aggregate of the above, representing financial aid from the market to the Government, direct and indirect, is further limited to one-tenth of the ordinary revenue budget as passed by the Legislature. Over and above these restrictions the Greek Government are called upon to undertake not to seek

short-term advances or to issue Treasury bills or other similar short-term obligations in excess of a specified figure.

This provision recognises that the issue of short-term Government bills to the market may, if carried beyond a certain point, prove as dangerous as excessive recourse by the State to temporary advances from the Bank direct. If such danger threatened, it would be incumbent on the Government to take prompt steps for the reduction of its floating debt in accordance with the advice that would doubtless be tendered by the Central Bank. Although, therefore, in a number of charters no formal restriction has been placed on the extent of a Central Bank's holding of short-term Government bills and similar obligations, or on the issue of such securities by the State, it is not to be inferred that the authors of the charters would regard it as proper for a Central Bank to pile up its holding of such assets indefinitely, or that the matter is not one which requires continuous watching on the part of the Government and the Bank. There is always present the underlying assumption that the State will not in any matter adopt a line of conduct that would impair the Central Bank's control of credit, as if this fundamental principle is ignored the whole structure is bound, sooner or later, to come to grief.

As regards the maturity of bills, acceptances and warrants eligible for discount by a Central Bank, the desideratum of liquidity indicates that bills which have other than a short currency at the time of purchase should be inadmissible. Generally, the bank laws or charters (*e.g.* Austria, Germany, France, etc.) take a period of three months, sometimes expressed as 90 days (United States of America), 92 days (Czechoslovakia), 100 days (Belgium and Japan), as the period to run as from time of acquisition by the Central Bank. Power to extend the period in special cases exists in the case of Latvia and Lithuania. In Italy the maximum currency of bills eligible for discount by the Banca d'Italia is four months. In the case of Holland the period of the bill is described as "not longer than required

by trade custom", and in Sweden the maximum period is six months. This longer time limit is conceded in the case of bills drawn for agricultural purposes in certain countries, for example, Hungary, South Africa and Chile, and in the United States where the limit is nine months, as account may reasonably be taken of the fact that allowing for harvesting and marketing the process of agricultural trading is longer than that of ordinary industry.

The security required in its assets by a Central Bank makes it necessary to strengthen the paper it admits to its portfolio by more than the promise to pay of a single firm or individual, however excellent their credit. Hence Central Banks habitually require a minimum of two good signatures, and in some cases, for example, Austria, Germany, Hungary, Belgium and Bulgaria, three signatures are specified in the statutes as the normal minimum, that is, two names as endorsers beyond the original acceptor. In Germany it is laid down that the third signature may be dispensed with if special security is provided as collateral, but the total number of bills in this class must not exceed 33 per cent of the Bank's portfolio of discounted bills. In most instances, discretion exists with the management as to the insistence or otherwise on the third signature, a question which obviously turns on the quality of the first two signatures. In Japan, merchandise or warehouse warrants of value equivalent to the bill may be accepted as collateral in replacement of one signature. In any case the requirement of additional names of recognised solvency beyond that of the party on whom the bill is drawn gives the Central Bank a practical assurance, if it conducts its business with prudence, of getting its money on maturity, and should free it from the risks and inconvenience of having to dispose of goods or merchandise in default of payment. In practice the requirement of two or more names will lead to a large proportion of bills carrying the endorsement of a bank. As regards the currency in which paper discounted is payable, it is sometimes provided, as in the Austrian, Hungarian, Polish and Swedish statutes, that this should be in the national currency. In that case

dealings in foreign bills must be covered by separate provisions regarding operations in foreign exchange.

Certain charters, including those of the National Banks of Belgium and Bulgaria, the Bank of Lithuania and the Bank of Japan, lay down special machinery for the scrutiny of bills offered to the Central Bank. In general the object is to ensure that local knowledge is utilised in dealing with application for credit. In the case of Belgium and Japan the Discount Committees are appointed by the General Council of the Bank (*i.e.* Directors and Auditors). This kind of work demands expert knowledge, and the statutes of the National Bank of Czechoslovakia lay down that the Bank should consult Chambers of Commerce, Agricultural Boards and other such bodies as to the choice of its censors, who in this case, as in Bulgaria, are honorary. In Japan fees are payable in proportion to attendances. As regards the scrutiny of bills, a Central Bank should be under no obligation to give reasons for refusal to discount a bill, and some charters, for example, that of the National Bank of Austria, definitely lay this down.

The principles applicable to discounts also determine in general the other loan operations of a Central Bank. The advances should be for short periods only, and most Central Banks make three months the limit,¹ and it is for the administration to take steps against continuous and indiscriminate renewals of advances. This is a question which has recently exercised the attention of the Federal Reserve Board, and in their report for 1926 the Board alludes to the action they have taken with a view to checking continuous borrowing by member banks, and the considerations that tell against the obtaining of continuing credit by means of rediscounts are of at least equal cogency in regard to ordinary advances. As unsecured credits

¹ The Swedish Riksbank statutes allow of advances up to six months. The Federal Reserve Banks, on the other hand, are only permitted to make advances to member Banks on their promissory notes for a maximum period of fifteen days, provided that the promissory notes are secured by paper eligible for rediscount or purchase by Federal Reserve Banks or by bonds or notes of the United States. See Appendix I. p. 365.

should not be granted by a Central Bank, it is necessary that the Bank charters should define the classes of collateral eligible as a basis of loans. Recent tendency has been properly in the direction of increased precision, and such a vague provision as that in the law regulating the Commonwealth Bank of Australia, namely, that it may make advances on any security that it "thinks sufficient", would be out of place in the charter of a true Central Bank. In deciding on the range of collateral it will admit, a Central Bank must seek to confine itself to security which will be readily saleable without loss in the event of its having to realise them. Four classes of collateral suggest themselves in this connection :

- (a) precious metals ;
- (b) Stock Exchange securities ;
- (c) commercial bills payable in the home market ;
- (d) foreign currencies and bills payable abroad.

(a) As regards precious metals, the charters of typical modern Central Banks allow advances to be made against gold and silver.¹ Gold as the basis of the currency standard is obviously appropriate, but even if in practice the provision is ignored, there seems no reason for treating silver on the same footing. Here the example of the Federal Reserve system and the South African Reserve Bank, which it is proposed to follow in the case of the Indian Reserve Bank and the Bank of Greece, and which admits gold only, seems distinctly preferable.

(b) As regards securities, the Bank should only accept those of the highest class carrying a fixed rate of interest, and shares of which the value is liable to fluctuation owing to changes in dividend and in market sentiment should be excluded. Owing to the difference of conditions in the various markets, it is perhaps impossible to frame an identical rule suitable for enforcement in all countries, and reliance must to a large extent be placed on the judgment of the Bank in its choice of securities to be admitted. The

¹ The Bank of Lithuania allows platinum, and presumably also the Russian State Bank, as the Bank holds this metal in its reserves.

Austrian, Hungarian and Polish charters admit stocks quoted on the Stock Exchange. The Reichsbank law specifies the eligible securities with greater precision. It is desirable that the securities should be of free marketability and of as short currency as local conditions allow and that, if their maturity extends beyond a few months, the advance should be limited to an amount leaving an adequate margin in relation to the market value of the security, as in Belgium, where even Government securities are only reckoned at four-fifths value. Again, a limit should be placed on the amount of Government securities taken as collateral. These are in practice likely to predominate among the securities offered as a basis for loans, and it is important that they should not be permitted to obtain a position in the Bank's business that might lead to the subordination of credit policy to State exigencies. In the case of Chile, the Central Bank is ordinarily only allowed to advance against Government, municipal, railway and similar securities up to an amount not exceeding 20 per cent of the Bank's paid-up capital and surplus, though the proportion may in special circumstances be raised for a period not more than six months to 30 per cent. In Germany, advances against Government or municipal bonds maturing within one year may only be made to banks of known solvency and up to three-quarters of the market value of the securities. The holdings of three months Treasury bills by the Reichsbank must not exceed R.7400 million. Power may be granted in special circumstances by the General Council of the Reichsbank for the acceptance of bonds of the Reich of distant maturity if, apart from the security, two obligees are liable for the loans (one to be a bank doing business in Germany). The total loans against these distant maturities may not exceed the amount of the Bank's capital and reserves.

(c) As regards the bills admitted as the basis for loans, these should be of the same type as those eligible for rediscount. Most European Central Banks allow bills due within six months as collateral for advances, and the security is improved if, as should be the normal

practice and is prescribed in the case of the Reichsbank, the amount of the advance is kept well below the market value of the bill. In the case of Lithuania, where loans against precious metals are only made up to 90 per cent of the value of the collateral, the percentage that the admissible advance bears to the value of the bill is put at 70 per cent, and the currency of the bills does not ordinarily exceed three months, a figure taken as the standard in the Federal Reserve Act and in the charters of the Reserve Bank of South Africa and the Bank of Chile.¹ The aim is to maintain the maximum fluidity of the assets of the Central Banks, so that they should be capable of conversion into cash within three months, or as near that period as possible.

(d) The arguments indicating that a Central Bank should be allowed to deal in foreign exchange have been already discussed. Foreign currency payable in gold in a country on the gold standard or a short term bill, similarly payable on an international market and bearing the endorsement of a Bank of repute are clearly sound and liquid assets for advances.

It may be asked whether a Central Bank, in addition to allowing precious metals, securities, bills and foreign values as collateral for loans, should also be prepared to make advances against merchandise. Such advances are more properly within the sphere of commercial banks, and the practice of the Federal Reserve system and the Reserve Bank of South Africa, which exclude such advances, is to be commended as consonant with the position of a true Reserve Bank, which should be protected as far as possible from the risks inseparable to dealings with commodities. The practice of the European Central Banks in this respect is different. In Austria, Hungary and Poland the receipts or warrants of public warehouses are eligible for discount. The laws of the Netherlands Bank allow advances against the security of goods and warrants, and those of the

¹ As observed in the case of discounts, it is usual to allow a longer currency in the case of agricultural paper. For details see Appendix I.

Swedish Riksbank against stock warehoused or held at its disposal by a third party of good credit. The Reichsbank allows loans against merchandise warehoused up to 66 $\frac{2}{3}$ per cent of its value. The Banks of Latvia and Lithuania allow advances against goods not easily perishable and warehouse warrants relating thereto. These provisions must be regarded as departures from the strict doctrine of Central Banking, and indicate a certain intrusion into a sphere of business which it would be preferable to leave to the commercial banks. But whatever collateral is admitted as a basis for loans it is for the Bank administration to see that the continuous renewals of loans should not place particular business interests of the country in a position of permanent reliance on credit creation by the Central Bank. There is a provision in the charter of the Bank of Japan which only allows one renewal of loans on maturity except by the special permission of the General Council of the Bank. A somewhat similar rule is to be found in the statutes of the Bank of Estonia as regards the renewal of maturing bills discounted by the Bank.

Before leaving the subject of admissible loans and advances a word must be said on the relative parts played by discount and loan business in the Bank's credit operations. The special advantages in respect of security, liquidity and negotiability offered to a Central Bank by the commercial bill have been referred to above. The Banks will naturally direct their efforts to stimulate the creation of these credit instruments. This can be done by moral influence and also by pecuniary inducement. It is significant, therefore, that various modern charters contain provisions intended to promote the custom of drawing bills and the obtaining of credit by their rediscount as against the alternative habit of obtaining advances by the tender of collateral. The rate charged on advances will ordinarily be less favourable than that on discounts, but the statutes of the Central Banks of Austria, Hungary and Czechoslovakia, for example, definitely prescribe that if the total of the Bank's loans exceed the total of bills held, the rate charged on advances is to

be raised to one and a half times the discount rate. In the case of the National Bank of Bulgaria there is also a provision requiring an increase in the rate in similar circumstances.

OTHER BUSINESS

The remaining branches of Central Banking business that call for remark are :

Deposit business.

Clearing and internal circulation.

Commission business.

Deposit Business.

Central Banks should as already explained hold the reserves of the commercial banks and the Government balances as the official bankers. Reference has also been made to the question whether they should be allowed in addition to receive deposits from the public.¹ Though there can be little question that the independence of the Central Bank will be increased and the risk of its being involved in undesirable loans minimised by the exclusion of private deposits from the ordinary public, it is only the Federal Reserve Act that definitely forbids them. It is noteworthy that the South American Reserve Banks which are based on the United States model are allowed to receive such deposits, but in none of these countries is there so highly developed or so widespread a banking system as was the case when the Federal Reserve system was introduced in the United States. It is probably true that no country has left the foundation of a central banking organisation to such a late date in its economic development as the United States, and there was clearly no need in that instance to provide additional banking facilities for private persons, while on the other hand it was advisable to reduce to a minimum the area of competition between the Federal Reserve Banks and the existing commercial

¹ See *supra*, p. 105.

banks. As regards the deposit business of the Bank of England, no detailed statistics are available, and it is impossible to say how much of the "other deposits" in the weekly return represent accounts other than those of the clearing banks. It has been suggested that the amount may be perhaps 25 per cent of the "other deposits", but of this a proportion doubtless represents balances of non-clearing banks. It is to be noted that the Bank of England does not go out of its way to seek private deposits from British nationals, and, so far as the non-clearing banks and foreign Central Banks are concerned, the financial position is strengthened by the concentration of the reserves of the former and of the balances in the United Kingdom of the latter at the Bank of England. It is worth noting that the Swedish Riksbank, though it is empowered under its charter to accept private deposits, is more than any other European Bank a bankers' bank.

Whatever deposits are accepted by the Central Bank, it is highly desirable that interest should not be paid on them. The payment of interest even on time deposits is better left to the commercial banks with whom the Central Bank should not compete for ordinary banking business. The payment of interest on deposit accounts involves an additional claim on the income of the Bank, and the need for meeting this might force the Bank to devote undue attention to the earning of profits, and in consequence to incur business risks inappropriate to a Central Bank. The refusal to allow the payment of interest to customers may therefore be viewed in the same light as limitations on the amount of dividends to shareholders. Both provisions are desirable if the Bank's policy is to be directed solely by national considerations without undue regard to the question of profits. It is important, therefore, that the rule prohibiting the payment of interest should be explicit. This is the case in certain instances, as in the law constituting the Reichsbank and the South African Reserve Bank, but in some other countries, of which Austria, Hungary, Denmark and Italy are typical, the law is not

absolute. This does not imply anything as to the extent to which the Central Banks in these countries do in practice pay interest on deposits. The Riksbank, for example, which is definitely empowered to open deposit accounts at interest, has never utilised its powers in this connection. The draft charter of the Bank of Greece allows the payment of interest at a rate of not more than 1 per cent per annum on the deposit and current accounts of other banks.¹ The object of this is to induce the largest number of commercial banks to centralise their reserves with the proposed new Central Bank. At the same time the concession, though deemed necessary in this case, is to be deprecated. The fundamental importance of the principle of not allowing interest on deposits is recognised in the established custom of the Bank of England, which has only departed from it in exceptional circumstances arising out of the war.

It is open to a Central Bank which deposits funds at a foreign Central Bank, to arrange with the latter, as its agent, for the remunerative employment of these deposits or part of them, on terms to be agreed. This is to be distinguished from the payment of interest by the foreign Central Bank itself on a deposit, and is in harmony with the view that Central Banks should look to one another as agents for the conduct of business arising out of their external relations. A Central Bank must maintain an appropriate amount of its assets in a completely liquid form, but this does not mean that its total credits with a foreign Central Bank should be unremunerative. As a practical matter it would be unreasonable to suggest that a Central Bank should leave unemployed its foreign balances which may at times reach large dimensions, and for the stability of the market where they are held it is more satisfactory that they should find their way into bills and securities rather than they should be used to acquire gold. This not only makes for economy in the demand for gold itself, but the management of the balances of the

¹ See also footnote on page 36.

foreign Central Bank, through the domestic Central Bank, is also likely to lead to their employment, and subsequent withdrawal as necessary, in a manner that will produce the minimum of dislocation.

Clearing Arrangements and Internal Circulation

The opening clause of the law governing the Reichsbank mentions among the objectives of the Bank that it should regulate the circulation of money and facilitate the clearance of payments. Similar phrases are to be found in the statutes of other Central Banks. The responsibility of a Central Bank for the regulation of money and credit with reference to the exchange and the provision for meeting foreign payments has already been considered. On the internal side it is for the Central Bank, as the currency authority, to arrange for the provision of such currency and credit as trade conditions require throughout the country, and to set up an expeditious and economical machinery for the clearance of drafts and settlement of internal accounts. As holder of the balances of the commercial banks a Central Bank is specially qualified for this duty. The Commonwealth Bank Act, for example, provides for the settlement of balances between Australian banks by cheques drawn on and paid into the Commonwealth Bank. In Colombia the Bank of the Republic is required to act as the clearing house for member banks in Bogota and any city in which it has a branch. In the United States the Federal Reserve system has been able to introduce important improvements in the pre-existing practice. Formerly the collection of cheques by a bank on behalf of another bank in a different place involved a charge for collection. These charges, which were not uniform, were a source of profit to collecting banks, and their existence led on occasion to routing of cheques, not with a view to speedy clearing but for the purpose of avoiding their passage through an expensive centre.¹ The Federal Reserve authorities have brought all districts into proper relation, have greatly reduced transit charges, and are well on the

¹ Kemmerer, *The A B C of the Federal Reserve System*, pp. 20, 21.

way towards establishing a clearing system throughout the country by which cheques may be presented for payment free of cost. The cost of collecting and clearing cheques for member banks is borne by the Federal Reserve system. Though the loss of profits was resented by the commercial banks, there can be no doubt that the change in practice is greatly to the advantage of business as a whole.

Among the responsibilities of a Central Bank in relation to internal organisation is the regulation of the supply of token metallic money. This should be issued by the State through the Central Bank and distributed through the country by the agency of the commercial banks. The State should not issue token coin direct, as this might prejudice the position of the Central Bank as the currency authority. Provision to this effect is included in the law regulating the National Banks of Czechoslovakia and Bulgaria. In the case of the Bank of Chile, the Government is under obligation "to respect the opinion of the Bank's Board of Directors as to future issues of fiduciary coins . . . and not to increase the circulation of such coins at times when the Board of Directors of the Bank by seven affirmative votes request it not to do so, on the ground that the circulation of fiduciary coins is becoming redundant and thereby interfering with the Bank's obligations to the public of maintaining the gold standard". This expresses succinctly the purpose of a stipulation which derives importance from the temptations to a State to issue token coinage by reason of the profits obtained therefrom. The point figures also in the bill for setting up a Reserve Bank in India, which prohibits the Government of India from issuing coined rupees except through the medium of the Bank.

If silver token currency issued through the Central Bank becomes redundant to the needs of the country, this would be shown by its accumulation in excessive quantity with the Bank. The State might perhaps expect the Bank to hold a moderate amount over actual immediate needs against anticipated requirements later, but if the amount reached

serious proportions, it would be reasonable for the State, which would have taken the profits on coinage, to relieve the Bank of the incubus of a non-liquid asset.

Commission Business for Third Parties

If a Central Bank is permitted to receive deposits from private customers, these will naturally look to the Bank to carry out financial and miscellaneous transactions on their behalf usually discharged by commercial banks. These transactions will include the execution of purchases and sales on the Stock Exchange, the collection of sums due (*e.g.* interest on securities), the making of payments, the issue of drafts and letters of credit and the custody of articles of value. It must be recognised that these functions are not properly within the province of a Central Bank *quâ* bankers' bank, and hence they do not figure within the range of duty of the Federal Reserve Banks. They are, however, included in the permissible operations of Central Banks in Europe and elsewhere. In carrying out agency business a Central Bank must, of course, see that it incurs no risk of loss thereby, and it is worth noting the express provision in the Reichsbank law that the Bank is only authorised to buy Stock Exchange investments on account of third parties "after having in advance received cover in respect thereof", and to sell the same "after previous delivery to the Bank".

SPECIAL RESTRICTIONS ON BUSINESS OF A CENTRAL BANK

The business proper for a Reserve or Central Bank to undertake must be hedged round by conditions which will make for the maximum of safety and promote the maximum of liquidity in its assets. In addition, therefore, to prescribing the permissible business in unambiguous terms, there are advantages in barring explicitly certain kinds of business inconsistent with the primary requirements already discussed. This makes for security and relieves the bank from possible risk of pressure to stretch its powers in a sense that

might be inimical to its stability and responsibilities as a Reserve Bank. Thus we find that the acceptance of an interest in a commercial undertaking is barred by the constitution of the banks in a number of cases, for example, in South Africa, Belgium, Czechoslovakia, Lithuania and Bulgaria. The National Bank of Bulgaria was required to free itself of commercial commitments as a condition for the grant of assistance through the League of Nations for the rehabilitation of the country's finances. The reorganisation of the Bank of Estonia in 1927 included the repayment of a substantial portion of its long term industrial loans by means of a foreign loan raised by the Government. These industrial loans are to be taken over by the Government and transferred for realisation to a Mortgage Institute created for the purpose. In the case of Germany the business proper to the Reichsbank is clearly demarcated from that of the Gold Discount Bank, a separate official organisation created at a time of stress to afford needful credit for the reconstruction of business. Presumably the Gold Discount Bank is not to be regarded as a permanent feature of German banking organisation, as it seems undesirable that the Reichsbank should by its close connection with it have such direct contact with trade and industry. It has to be recognised that in the course of business a Central Bank may find itself constrained on occasion to take over the commercial assets pledged by a borrower, but in that case the statutes should provide that the Bank should dispose of these assets within a strictly limited period. One of the governing considerations that led the Royal Commission to recommend the creation of a new Reserve Bank in India as preferable to the conversion of the Imperial Bank of India into a Central Bank, was that the Imperial Bank was deeply immersed in the commercial operations of the country, and that its de-commercialisation would have involved the loss of the services it could render in promoting the growth of banking habits in India. On somewhat similar grounds the creation in Greece of a new Central Bank has been proposed by the League of Nations

in preference to the conversion of the National Bank of Greece. In the case of Australia also, where the question of establishing a true Central Bank is now under discussion, one of the issues that will have to be faced is that the Commonwealth Bank of Australia is under the present law permitted to engage in general banking business to an extent inconsistent with the responsibilities of such an organisation.

A Central Bank requires worthy premises from which to conduct its business, but apart from this, freehold property is an unsuitable asset for a Central Bank to hold, as it is non-liquid and liable to serious fluctuations of value. Thus in a number of cases real estate is, with good reason, expressly excluded from the range of the Bank's admissible investments, except in so far as the property is required for the purpose of the Bank's own operations. This point may be illustrated by reference to the statutes applicable to Germany, South Africa, Belgium, Poland, Chile and Czechoslovakia. In the case of the Federal Reserve Banks of the United States executive provision goes further, and the Banks are being required to write off the capital cost of their premises over a period of 50 years.¹

Ordinary commercial investments are obviously out of keeping with the basic conception underlying a Central Bank. As regards long term Government securities these, like other similar investments, are liable to depreciation, as Banks have learnt to their cost on many occasions, and such Government securities as the Central Bank may hold should as far as possible be restricted to short maturities. While the South African Reserve Bank is permitted to deal without limit in Government securities of not more than six months' currency, it is only permitted to invest a sum not exceeding its paid-up capital and reserve in Government securities up to two years' maturity. The staff and superannuation funds may be invested in Union Government securities of any maturity. These limited departures from the general principle of avoiding investments in the usual

¹ W. P. G. Harding, *The Formative Period of the Federal Reserve System*, p. 250.

sense are perhaps to be explained by the facts that where there is a deficiency of short-time securities some alternative outlet must be found for part of the Bank's resources, and that only in a somewhat extreme case would a Central Bank have recourse to its capital and statutory reserves to cover losses, and that staff funds are a continuing fund, current demands on which may be largely met from current contributions. Analogous provisions are found in certain other charters. The Netherlands Bank is authorised to invest its Reserve fund and one-fifth part of its share capital, though in this case there is in terms no restriction as to the investment being in Government securities. The National Bank of Belgium may with the authority of the Government acquire public securities up to the amount of its capital and reserves. The reserve fund of the Bank of Poland may only be invested in Government bonds, and its statutes make no other provision for long term investments. The National Bank of Bulgaria may invest on its own account up to 20 per cent of its capital in Bulgarian Government securities, and in the case of the Bank of Lithuania the limit is one-third of the Bank's capital stock. The draft charter of the Bank of Greece allows the investment of an amount not exceeding the paid-up capital and resources of the Bank in Greek Government or other bonds quoted on the Stock Exchange of Athens or foreign financial centres, provided that interest and capital are payable in currencies stabilised on gold.

It should, of course, be clearly laid down that no Central Bank should make unsecured loans or overdrafts, and specific provisions to this effect are to be found in the statutes of the Reserve Bank of South Africa, Bulgaria and Chile. In the case of Germany and Czechoslovakia, the acceptance of bills or guarantees for third parties is explicitly barred on the same principle, namely, that a Central Bank must have the maximum security for all its transactions, a condition which requires that its credit should only be available against more than one endorsement or signature.

The stocks of Central Banks properly enjoy high esteem with investors, but they are not a suitable security for a Central Bank to buy on its own account or to accept as collateral for loans. The purchase of its own stock by a Central Bank is virtually equivalent to a reduction of its capital, and to that extent diminishes the security of its depositors. Loans against its own stock might in the event of default by the borrower lead to the stock coming into the hands of the Bank—a result open to objection on the grounds just stated. Provisions designed to remove the risk of these contingencies are included in the Federal Reserve Act and the statutes of the Reserve Bank of South Africa, and the Central Banks of Belgium, Poland, Czechoslovakia, Chile and Lithuania.

An important question is that of borrowing by a Central Bank. Such a Bank should not ordinarily require to borrow in the domestic market, either for its own needs or for the purpose of exerting control of the market, as it can increase its cash assets and diminish the supply of funds in the market by selling bills or securities. A Central Bank should also not have recourse to external borrowing for the purpose of providing assets against which the note issue may be expanded as the foreign assets obtained by a loan are balanced by a corresponding liability to repay in foreign currency. The use of such external credits as a basis for the creation of a further liability, *i.e.* notes, is therefore unwarrantable. Certain Banks, including the Bank of England and the Bank of France, have borrowed abroad on occasions, but some modern charters make no provision for this; in other cases restrictions are imposed. The Bank of Lithuania is formally prohibited by its charter from borrowing for its own needs, and the revised statutes of the National Bank of Belgium prohibit it from borrowing except for certain defined purposes.¹ This power was apparently

¹ Extract from Article 18 of Statutes of the National Bank of Belgium : " Elle (La Banque) ne peut emprunter sauf dans les cas prévus au 2° de l'article 17."

ARTICLE 17. " Les opérations de la Banque consistent : . . . 2°. A

intended to enable the Bank to borrow abroad if necessary for the purpose of the stabilisation of the currency, which was then being undertaken. The Swedish Riksbank is also authorised to borrow abroad in the event of necessity up to a total fixed by the Bank Administration, at present at 20 million kronoer. The borrowing of a moderate sum abroad for a short period might on occasions enable a Central Bank to discharge its obligations more advantageously than would the immediate disposal of its foreign assets, and provision enabling it to take such action is perhaps free from serious objection. But as regards any extensive operations, it must be recognised that the repayment of external loans, if the currency should after all depreciate, must entail losses, which may be overwhelming, and that the operation is therefore one requiring special circumspection. In view of the fact that such external borrowing would normally be connected with the Bank's national responsibility as regards the exchange, and that it involves a peculiar risk, prudence would suggest that a Central Bank should not be allowed to borrow abroad on security or otherwise unless this course is specially approved by the Government of the country. It is worth noting that when the United Kingdom reverted to the gold standard in 1925, Parliamentary authority was sought by the Government for borrowing abroad if necessary any funds required for the purpose of exchange operations in relation to the policy of the return to gold, and credits amounting to \$100,000,000 were arranged for through a firm of American Bankers. At the same time the Bank of England arranged for credits amounting to \$200,000,000 to be available if needed through the Federal Reserve Bank of New York. Actually no use was made of these credits, but the point to be noted is that in this case the whole transaction, including the part in it of the Bank of England, was connected with the scheme for the return

réescompter à l'étranger les effets de son portefeuille ; à remettre ces effets en gage ; à garantir la bonne fin de ces effets ou des opérations d'escompte et d'avances y relatives ; à acquérir des avoirs ou obtenir des crédits à l'étranger."

of the United Kingdom to a gold basis and had the approval of the Government of the day. Similarly, arrangements were made in concert between the Danish Government and the National Bank of Copenhagen in regard to the raising of a credit for the Bank in the United States in connection with the stabilisation of the Danish currency under the Act of 1924. If foreign borrowing for such purposes has to be contemplated, it is more appropriate that the loan, as in the above case, should be raised on behalf of the Government and the proceedings placed at the disposal of the Bank, rather than that the loan should be obtained by the Bank itself from such quarters, in the main other Central Banks, as are open to it.

CHAPTER VIII

CO-OPERATION BETWEEN CENTRAL BANKS

IN considering the duties and responsibilities of a Central Bank and the form of its constitution, attention has hitherto been mainly directed to the services it can render in conserving sound conditions in the internal money market, but the creation of a net-work of Central Banks, with, broadly speaking, similar objectives, opens the door to greater opportunities of helpfulness and benefits to industry. The resolutions of the Financial Commission of the Genoa Conference of 1922 emphasised the importance of continuous co-operation between Central Banks of Issue, and pointed out that such co-operation would provide opportunities of co-ordinating policy without hampering the freedom of the various Banks.¹ Events since 1922 have served to reinforce the wisdom of this view, and there is good reason for the belief that it is being more and more acted upon by Central Banks of Issue.

In Europe and America the establishment of business relations between the Central Banks has made rapid headway in recent years. This is shown by the increasing

¹ Cf. RESOLUTION 3, adopted by the Financial Commission at Genoa, 1922: Measures of currency reform will be facilitated if the practice of continuous co-operation among central banks of issue or banks regulating credit policy in the several countries can be developed. Such co-operation of central banks, not necessarily confined to Europe, would provide opportunities of co-ordinating their policy, without hampering the freedom of the several banks. It is suggested that an early meeting of representatives of central banks should be held with a view to considering how best to give effect to this recommendation.

number of Central Banks which maintain accounts with other Central Banks, especially those of the great money centres. In this connection the Banks can render valuable services in facilitating the great volume of international payments between Governments in the form of debts and reparations which the war has bequeathed. The amounts and times of these payments are known in advance, and the Banks, being in constant touch with ever-changing market conditions, can aim at arranging the transfers in such a way as to involve the minimum disturbance to trade and money markets.

The results of war and post-war conditions have led to a demand in certain of the belligerent countries for capital far beyond the capacity of the local money markets to provide. So far as this has been the case on the Continent borrowers have turned in the main to London and New York for their requirements. These loans, though they serve the needs of the moment, leave behind them the burden of annual interest and sinking fund. Thus, unless controlled, they might become a danger to the currency standards of the borrowing States, and a break-down in the credit of any important debtor country would upset the confidence of the great lending centres. Here, there has been a fruitful sphere for the exercise of guidance by Central Banks. An illustration is afforded by the case of Germany, where the Reichsbank has endeavoured, with varying success, to limit the incurring of external obligations to real necessities.

The whole system of the compensatory reactions of the exchanges and gold movements hinges on the effect of discount policy not only in the internal, but also in the external, markets, and no important money market can therefore be indifferent to what takes place in another. If full advantage is to be derived from the existence of a chain of Central Banks, it is desirable that contact, at any rate between the leading Banks, should be close and continuous. The maintenance of confidential relations implies no lack of independence, but unless there is frank

discussion between the Banks there must always be a risk that mistakes of policy producing avoidable disturbance of the money market will occur through ignorance of the intended actions of another Bank. The frequent meetings between the Governors of the leading Central Banks are a recognition of their community of interests.

The progressive restoration of the gold standard in Europe, though an act of official policy in each country concerned, is being achieved in a large measure by the co-operation of Central Banks. A striking example of such international co-operation was furnished by the scheme for the rehabilitation of Belgian finance, in which a group of Central Banks including, among others, the Bank of England, the Bank of France, the Reichsbank, the National Bank of Switzerland, the Federal Reserve Bank of New York and the Bank of Japan all participated.¹ Similarly in connection with the Polish stabilisation scheme of October 1927, the Bank of Poland arranged credits from fourteen Central Banks. Speaking generally, the various schemes of currency reform fostered by the League of Nations in various countries have also presupposed a measure of co-operation between Central Banks, especially in regard to the issue of such foreign loans as have been considered necessary for paving a way to the return to the gold standard. In this connection it is worth recalling that the decision to revert to the gold standard by the Netherlands in 1925 synchronised with the same decision by the United Kingdom.

The smooth working of the gold standard has been entrusted to the Central Banks, with whom it rests to regulate the monetary demand for gold in accordance with such supplies as may be available, without forcing any serious departure from the existing level of gold prices.

¹ "La collaboration de l'étranger à cet assainissement monétaire et financier, sous les auspices de la Banque d'Angleterre, offre un exemple réconfortant de solidarité internationale. Elle s'est faite sous la forme d'une action coordonnée d'un groupe d'établissements privés et d'un groupe de banques d'émission. La Suisse est représentée dans les deux groupes" (Report of Banque Nationale Suisse, 1926).

This means that the Central Banks must refrain from engaging in, and so encouraging on the part of others, a scramble for gold which would have the effect of raising the commodity value of gold and would lead to a period of economic stress, while the conditions of production were being adjusted to this enhanced value.

The preservation of stable prices, in association with the maintenance of stable foreign exchanges, is the great service which the world hopes to receive from a sound central banking policy conceived and carried out in concert between the Central Banks.

A striking opportunity for concerted action arises in relation to the practice recognised in various modern charters, such as those of the National Banks of Austria, Hungary, Belgium and others, of treating certain defined assets in stable foreign currencies, such as the pound or the dollar, as the equivalent of gold for the purpose of cover for their note issues. This has given all countries that have adopted this rule a direct and peculiar interest in the stability of those foreign currencies recognised as legitimate cover for their notes. In so far as they hold sterling or dollar credits in this way, the Banks of Issue concerned are able to reduce the amount of their non-interest-bearing assets, and are in effect putting on to the shoulders of others the burden of carrying gold. They have therefore a moral obligation as well as a material interest in not making the burden excessive, and must recognise the duty of conducting their credit policy and gold operations on lines that will not unnecessarily weaken the position of the external Central Banks or upset the money markets for which the latter are responsible. This means that when a foreign Central Bank wishes to convert its external credits into gold by purchasing in a foreign market, it should act in concert with the Central Bank of the market concerned. It has been suggested that the amount of the operating reserves of foreign Central Banks held in the form of dollar exchange is perhaps as much as \$1,000,000,000. Such figures indicate the need for

on many grounds desirable, that may arise hereafter. In so far as this takes place a present credit expansion might involve contraction later. Such a double disturbance of an existing stability is obviously to be deprecated. But a far more important consideration is that a release of credit on a scale that the gold reserves would permit would induce an upward movement of prices, not only in the United States, but throughout a world which is seeking to find again in gold the stable standard of value, that after the recent upheaval it so sorely needs. The steps that the Federal Reserve Board has taken to prevent the heavy gold imports from exerting their normal influence in the direction of credit expansion and advancing prices are therefore worthy of special note. So successfully has this policy been pursued that in the years 1922-26 the wholesale index number of United States prices according to the statistics of the Labour Bureau has remained astonishingly stable, as will be appreciated from the following figures, which are based on the index of 100 for 1914:

| | | |
|-----------------------------------|-----------|------------------|
| 1922 | | 149 |
| 1923 | | 154 |
| 1924 | | 150 |
| 1925 | | 158½ |
| 1926 | | 151 |
| 1927 (average for first 6 months) | | 145 ¹ |

Thus the level of gold prices in the United States in 1926 was practically identical with that of 1922, and the range of fluctuation in the interval was extremely moderate. In the course of the first half of 1927 there was a decline of quite moderate dimensions in the United States index number. It remains to be seen whether this is merely a temporary change or whether it marks the first stage of a movement towards a lower level of prices. The policy pursued by the Federal Reserve authorities has, of course, tended towards the maintenance of stable gold prices elsewhere, and is an outstanding example of the services

¹ The index number rose in the quarter ending September 1927, by which month the figure had recovered to 148.

that a wise central banking policy can render in the international sphere.¹

It has been suggested on occasions that this policy of holding an unnecessarily large quantity of unproductive gold entails needless expense to the Federal Reserve system. When this point was specifically put to Governor Strong of the Federal Reserve Bank of New York by the Royal Commission on Indian Currency, he remarked :

I wholly disagree with the theory of the cost to the nation of this gold. One might say that it costs any nation an unnecessary amount of income, which it might otherwise obtain, to have a high bank reserve. In other words, if, under the conditions which now exist in the world, it seems appropriate or necessary—not in a selfish sense but with regard to the interest of monetary restoration in the world—that the United States should run its banking system as now reorganised with a reserve which is, say, 20 or 25 per cent above what has formerly been regarded as, we will say, the apprehension point of bank reserve, it simply means that we have so many millions of gold in bank reserves in the United States which we have received in exchange for goods sold to the rest of the world which we would prefer, as a matter of national policy and protection, to allow to remain idle

¹ In the United States an amendment to the Federal Reserve Act was proposed in 1926 by Mr. Strong, a private member of the Legislature, which aimed at imposing on the Federal Reserve Banks the duty of conducting their policy with a view to promoting a stable price level for commodities in general. The desirability of the objective does not necessarily mean that it can be appropriately provided for by legislation. The suggested amendment was criticised by Mr. Governor Strong of the Federal Reserve Bank of New York. He pointed out that the proposal, if carried into law, was bound to lead to misunderstanding, and that though the Federal Reserve system had power to influence prices, the power was not absolute, but was subject to important qualifications. Within certain limits the amount of credit employed in the country and the cost of that credit could be influenced by the banking authorities ; but there might be cases, both of upward and downward movements of prices, that it might be beyond the power of the Federal Reserve authorities to counteract. Mr. Governor Strong appears to have satisfied the Committee of Congress regarding the un wisdom of the proposed changes in the law. See "Stabilisation of the Federal Reserve System," Professor T. E. Gregory, *Economic Review*, 15th June 1927.

as a surplus, or as an excess, or as an unduly large reserve, rather than to permit it to earn money when the earning of that income would result in a disastrous inflation. In that sense I do not think we can regard the loss of interest—which is a cost—and the loss to our Federal Government of the amount of franchise tax which it would otherwise receive from the Federal Reserve Banks, as a national loss. It would possibly be a more proper characterisation to regard any such loss of income as an insurance premium which we are quite willing to pay for protection against all the disorders of a highly rapid fluctuation in prices.

At the present time the burden and responsibility of holding gold values stable rests mainly on the shoulders of the Federal Reserve authorities. But a time may come when other Central Banks may take a more definite part in this duty. Certain well-qualified authorities hold that the future output of gold may not suffice to meet the monetary and other demands on the basis of the present level of prices, and that this shortage will tend to raise the value of the metal and depress prices with inevitable reactions on production, wages and employment. Already the danger of a shortage of gold is being guarded against by the general reluctance to introduce a gold circulation. If an actual dearth of gold threatened to arise, it would be incumbent on Central Banks to develop still further their policy for the reduction of the monetary demand for gold and to harmonise their efforts to this end. The so-called automatic character of the gold standard was always subject to important qualifications even in the period before the war. But since its general restoration after the post-war collapse of currencies the standard has definitely become a "managed" standard in the hands of the leading Central Banks. The contribution that a sound policy on the part of Central Banks co-operating all the world over, can make towards creating and maintaining stable conditions for industry and employment is immense. This power is perhaps second only to that of government in the broadest sense, which according as it is directed, wisely or not, affects for good or ill the destiny of whole communities.

APPENDIX I

SUMMARY OF LAWS, CHARTERS AND STATUTES REGULATING BANKS OF ISSUE

[In the following summary of the laws of Central Banks it has not been possible, owing to considerations of space, to reproduce textually the clauses concerned. The purpose has been to present the substance of the more important sections and to arrange them in such a way as to facilitate comparison between the legal requirements in different countries. The laws, etc., have accordingly been analysed and their main provisions classified under identical headings.]

AUSTRALIA *

COMMONWEALTH BANK OF AUSTRALIA

CAPITAL, PROFITS AND RESERVE FUND

9.¹ Capital £20,000,000, consisting of:

- (a) £4,000,000 transferred from Reserve Fund and Redemption Fund in accordance with following section.
- (b) Such sum not exceeding £6,000,000 granted to Bank by Government from moneys borrowed under this Act.
- (c) Such sum (if any) as is raised by issue of debentures.²

Capital of Bank is available for all purposes of Bank.

9 A. Of amount at credit of Bank Reserve Fund on 31st December 1923, £2,000,000 shall be transferred to Capital account, and of amount at credit of Redemption Fund on same date £2,000,000 shall be so transferred. Any balance at credit

¹ Numbers refer to Clauses of Commonwealth Bank Acts, 1911-25.

² None have so far been issued.

of Redemption Fund after this transfer shall be transferred to Bank Reserve Fund.

53. The Bank may issue debentures as it thinks necessary, but the total amount thereof current at one time may not exceed £10,000,000.¹

55-56. Such debentures shall be guaranteed as to principal and interest by the Commonwealth and shall be redeemable at par.

30. 1. The net profits are divided half-yearly as follows :

- (a) half to the Bank Reserve Fund ;
- (b) half to the National Debt Sinking Fund.

2. The Reserve Fund is available for the payment of any liabilities of the Bank.

BRANCHES

22, 23. The Board may establish branches and agencies in any part of the Commonwealth, and with the consent of the Treasurer it may establish a branch in London or any other place beyond the Commonwealth.

MANAGEMENT

11. Board to consist of Governor and seven other Directors, composed of :

- (a) Secretary to the Treasury ;
- (b) Six persons who are or have been actively engaged in agriculture, commerce, finance or industry.

12. The Governor, Deputy-Governor and Directors shall be appointed by Governor-General, and shall hold office for a period not exceeding seven years, being eligible for reappointment.

12 A. The Governor and Deputy-Governor shall devote whole time to their office. The Governor is Chief Executive Officer of Bank.

12 B. There shall be a London Board of Advice consisting of three members appointed by Governor-General on recommendation of Board of Directors. The term of office is for four years, and members are eligible for reappointment.

15 A. Each Director and member of London Board shall make declaration of fidelity and secrecy.

¹ None have so far been issued.

15 B. Following are ineligible for Directorship or London Board :

- (a) A director of any corporation (other than the Commonwealth Bank), the business of which is wholly or mainly banking ;
- (b) an officer of any similar corporation.

15 D. Board shall meet at least once a month and otherwise as Chairman directs. The Chairman shall be chosen by Board from its own members for 12 months' office.

15 E. Board may appoint from its own members Executive Committee of not less than three members to carry on business between meetings of Board.

17. Directors and officers of Bank shall not borrow from Bank, except that an officer may with consent of Board borrow for the erection or purchase of a home in which he intends to reside.

NOTE ISSUE AND RESERVE

60 B. State notes to be discontinued.

60 C. The Issue Department of the Bank to be kept separate from all other Departments.

60 F. All assets and liabilities of the Treasury under the Australian Notes Act, 1910-14, to be transferred to the Note Issue Department.

60 H. Australian notes shall be :

- (a) issued from the Commonwealth Bank ;
- (b) legal tender throughout all territories under the control of the Commonwealth, except for payments due by the Issue Department ;
- (c) bear the promise of the Treasurer to redeem the notes in gold (or silver in the case of a single 5s. note) on demand at the Head Office of the Bank.

Notes may be issued for 5s., 10s., £1, £5, £10, or any multiple of £10.

They shall bear the signature of the Secretary to the Treasury (or other officer of the Treasury), and the Governor of the Bank (or other officer of the Note Issue Department).

60 I. Part of the moneys derived from the issue of Australian notes shall be held by the Board in gold coin for the purposes of the reserve. The remainder may be invested :

- (a) on deposit with any bank ;
 - (b) in securities of the United Kingdom, the Commonwealth or of a State ;
 - (c) in trade bills with a currency of not more than 120 days.
- 60 j. The profits from the note issue shall be expended :
- (a) on the working expenses of the Note Issue Department ;
 - (b) in payment of a commission at a rate to be approved by the Governor-General to the Bank for purposes of its general business ;
 - (c) in payment of the balance to the Treasury.
- 60 k. A reserve of gold coin and bullion to be held equal to not less than one-quarter of the notes in circulation.

GENERAL BUSINESS

7. The Commonwealth Bank is authorised :
- (a) to carry on general business of banking ;
 - (b) to acquire and hold land ;
 - (c) to accept money on current or deposit account ;
 - (d) to make advances by way of loan, overdraft or otherwise ;
 - (e) to discount bills and drafts ;
 - (f) to issue bills and drafts ;
 - (g) to deal in exchange, specie and bullion ;
 - (h) to borrow money ;
 - (i) to do anything incidental to any of its powers.
- 7 A. The Bank may acquire business and take over assets and liabilities of any banking business with consent of Treasurer.
34. The Bank may invest :
- (a) in any Government security approved by Treasurer ;
 - (b) on loan on security of land ; or
 - (c) in any other prescribed manner.
- Nothing in this section shall prevent Bank from making advances to a customer " on any security which the Board thinks sufficient ".
26. The Bank may act as Agent in Australia for any bank carrying on business in or outside the Commonwealth.
35. The Bank may transact the business of a Savings Bank.

Accounts to be kept separately. (Regulations for the Savings Bank department of the Bank are laid down—35-52.)

60 A B B-60 A B F. A Special Rural Credits Department of the Bank has been established for the purpose of making advances under specified conditions on the security of primary produce placed under the legal control of the Bank.

60 A C. Settlement of balances between banks to be made by cheque drawn on Commonwealth Bank.

62 A. Bank may act as trustee for charitable or public purposes.

RELATIONS WITH THE STATE

18. Board shall furnish Treasurer with quarterly statements of assets and liabilities of Bank, and of business of Bank, to be published in *Gazette*, and also other periodical statements as required.

19. Bank is subject to inspection and audit by Auditor-General of Commonwealth not less often than half-yearly, and report shall be made to Treasurer of each examination.

20. Half-yearly balance sheet shall be submitted by Board to Auditor-General, who shall transmit it with report to Treasurer and also to both Houses of Parliament.

32. The Board may, with consent of Treasurer, make rules not inconsistent with Act or regulations thereunder for the good government of the Bank and for any matter necessary for the conduct of the Bank's business.

33. The Commonwealth shall be responsible for the payment of all moneys due by the Bank, but no creditor of the Bank may sue the Commonwealth in respect of his claim.

10. Treasurer may borrow moneys not exceeding amount necessary to grant Bank £6,000,000. Bank shall pay Treasurer half-yearly interest on grants so made, the rate being the effective rate paid on the loan raised by Government for the purpose as determined by the Auditor-General.

See also: Capital, Profits and Reserve Fund, 9 and 30 (1).

Management, 11 and 12, for Government representation and appointments on the Board.

General Business, 7 A and 34, for business requiring Government consent.

Note Issue, 60 F and H.

Returns, 60 L and A D.

RETURNS

60 L. A monthly return of notes issued and gold reserve held against them shall be forwarded to the Treasurer for publication in the *Gazette*.

60 A D. All Banks to supply quarterly statistics in form prescribed to Treasurer for publication in the *Gazette*.

TERM OF CHARTER

No fixed duration.

AUSTRIA

AUSTRIAN NATIONAL BANK

PURPOSE OF THE BANK

1.¹ The Bank is established for the purpose of regulating the circulation of money in Austria, of facilitating clearing of payments and of providing for the utilisation of available capital within the limits of the statutes. Its main function is to prepare the introduction of cash payments (redemption of notes in specie) by forming a reserve in metal and deposits payable in stable currencies, and to ensure the continuance of cash payments when once introduced.

Meanwhile, the Bank is to use all means at its disposal to ensure that its notes, when expressed in currency of a country on a gold standard or a stable currency, shall at least not depreciate.

CAPITAL

5-8. Capital, 30,000,000 gold crowns in 300,000 shares of 100 gold crowns each, fully paid. Share capital can only be increased or decreased by decision of General Meeting and subject to the approval of Legislature. Shares to be "bearer", and may be inscribed on application.

14. Twenty-five shares carry one vote : but no shareholder to have more than 100 votes on his own account.

15. A Proxy is entitled to a maximum of 100 votes as such, apart from the votes to which he is entitled on his own account.

PROFITS AND RESERVE FUND

99-100. After deduction of all expenses, profits shall be dealt with as follows :

¹ Numbers refer to Articles of Statutes of Austrian National Bank, 1926.

five per cent (minimum) to employees' pension fund ; allocations to pension fund shall cease as soon as it reaches an amount actuarially sufficient to cover pension claims ;

ten per cent to reserve, to be reduced to 5 per cent when reserve equals 20 per cent of share capital ; then 8 per cent to shareholders.

Out of residue provision may be made for special reserves. Then one-third of surplus to shareholders up to 10 per cent dividend, balance two-thirds to State.

Of remainder, one-quarter to shareholders and residue to State.

Reserve fund is to cover losses or amounts written off, of any kind. If it reaches 50 per cent of paid-up capital, no further payments to it shall be made from profits, so long as it remains at this figure.

BRANCHES

3. Branch offices shall be established in capitals of Federal Provinces. Other branches may be established subject to Finance Minister's approval.

MANAGEMENT

Board of Directors

25. The Board of Directors consists of Chairman (President) and 13 members (with 4 substitutes).¹

26. The Chairman is appointed by Federal President on nomination by Federal Government.

Office expires on day of fifth annual meeting following appointment. Chairman is eligible for reappointment.

27. Vice-Chairmen (first and second) to be elected from among its members by the Board, subject to approval of the Federal Government.

Terms of office as for Chairman (*vide* 26).

22-23. Directors are elected by ballot by general meeting. Following are ineligible : Federal Civil Servants, members of National Assembly, Federal Assembly or Provincial Diets.

¹ Councils of employees may delegate a representative to discuss matters concerning their class with the Board. In executing their office these representatives shall have the same powers and duties as the Directors, but each shall have a vote only in such matters as regard the group of staff he represents (25).

Nominees to Board must include a representative of each of following :

- (1) Banking Institutions ;
- (2) Savings Banks ;
- (3) Industry ;
- (4) Trade and Commerce ;
- (5) Agriculture ;
- (6) Labour.

Three names for each category proposed by representative organs of professions concerned to be put before General Meeting by Board. Not more than four members of Boards of banking institutions shall be members of Board of National Bank. Foreigners eligible as Directors, but not to exceed four.

28-30. Term of office of Director five years. Directorship is honorary, except that travelling expenses are allowed.

31. Chairman and all members of Board take oath of fidelity and secrecy.

33. Board to meet as a rule once a month, but meeting must be summoned on request of four Directors, General Manager or State Commissioner. State Commissioner to be invited to all meetings of the Board.

36 A. Urgent decisions in matters reserved for Board may be taken by Executive Committee consisting of Chairman, two Vice-Chairmen, General Manager and Senior Manager. Such decisions to be submitted to Board at next session.

Board of Managers

37. General Manager to be in supreme control of all business departments. Attends Board in advisory capacity and may submit motions to the Board.

38. Board of Managers consists of General Manager and three to five Managers. Responsible for execution of decisions of Board of Directors.

40-41. Board of Managers to meet as required, and meeting shall be called at least once a month by Chairman. State Commissioner to be invited.

Auditors

44. Five auditors chosen by General Meeting shall report on annual balance sheet at meeting. They may require explanations from Board and inspect books.

General Meetings

11. General meetings of shareholders :
- (a) annual before end of April ; and
 - (b) extraordinary as required. Extraordinary meetings must be called if requested by shareholders representing a quarter of the votes to which all members of the general meeting are entitled.
20. Purposes of meeting include :
- (a) to receive report of Board of Directors on year ;
 - (b) to approve balance sheet after hearing Auditors' report ;
 - (c) to deal with surplus and fix dividend ;
 - (d) to elect Directors, Auditors and substitutes ;
 - (e) to decide regarding motions for altering Statutes, and for increasing or reducing capital, as required by law ;
 - (f) to decide on whether to apply to Government for prolongation of bank-note privilege or to continue without it or to wind up Bank.

For shareholders votes see 14 and 15, under Capital.

NOTE ISSUE

80. Monopoly of issue is granted to Bank for duration of privilege.

Denominations of notes to be fixed in concert with Government.

82. Notes to be compulsory legal tender till cash payments are adopted.

83. Bank to provide for accumulation of metal reserve with view to introduction of specie payments. If Government and Board agree that time for this has arrived, the Government must propose it in Parliament. Until adoption of cash payments, Bank is not obliged to redeem notes in specie.

84. If after adoption of cash payments Bank fails to redeem notes presented at Head Office in specie within 24 hours, privilege of issue to be forfeited, unless failure is due to *force majeure* recognised as such by Government.

RESERVE

85. Following cover for notes is prescribed *pending adoption of specie payments* :

Total note issue and immediate liabilities less Federal Loan Debt to be covered by cash :

- to 20 per cent for first 5 years ;
- to 24 per cent for next 5 years ;
- to 28 per cent for next 5 years ; and
- 33½ per cent thereafter.

As cash may be reckoned notes in foreign currencies which have not undergone any violent fluctuations of exchange and bills (including credit balances and cash deposits) expressed in such currencies, payable at leading banking centres in Europe or America, and vouched for by banks of unquestioned solvency and otherwise admissible for discount by Bank.

Until cash payments are resumed, foreign credits as above of at least gold crowns 25 millions are to be held—amount not to be reduced except by decision of Board agreed to by at least eight Directors and Chairman.

86. Note issue and immediate liabilities in excess of Federal Loan Debt to be covered by :

- (1) cash reserve as in 85 ;
- (2) admissible discounts ;
- (3) foreign currency (including drafts and deposits), other than that reckoned as cash under 85 ;
- (4) foreign bills payable in Austria and conforming otherwise to conditions of admissibility to discount ;
- (5) subsidiary coins of Austria (including silver at intrinsic value).

For five years, loans on pledged movable property granted under statutes are allowed as note cover. Assets other than those enumerated may not be used as cover for bank-note circulation.

87. *After cash payments are resumed*, one-third cash cover, as defined in 85, is required for notes and all immediate liabilities. Balance to be covered by assets as in 86 and Federal loan debt.

88. If prior to adoption of cash payments, cash ratio in 85 is not maintained, Bank to pay a note tax on excess note issue equivalent to discount rate plus following increases :

- (a) one per cent if cover amounts to less than 20 per cent (or 24, 28 or 33½ according to respective periods), but more than 18 per cent (or 22, 25½ or 30 per cent), and

- (b) a further $1\frac{1}{2}$ per cent for every further 2 per cent or fraction of 2 per cent by which cover falls below 18 per cent (or 22, $25\frac{1}{2}$ or 30 per cent).

Taxation rate must not be less than 5 per cent.

89. After resumption of cash payments note tax to be paid as soon as cover ratio (*vide* 87) falls below 40 per cent on following scale :

- (a) 1 per cent if cover is less than 40 per cent but more than $33\frac{1}{3}$ per cent ;
 (b) a further $1\frac{1}{2}$ per cent for every 3 per cent or fraction thereof by which cover falls below $33\frac{1}{3}$ per cent.

Note tax must in no case be less than 5 per cent.

92. After legal ratio of currency has been established, the Bank to be obliged to buy gold bullion on demand at mint parity in exchange for notes. Charges for assay, etc., to be to seller's account.

93. Bank to be obliged to exchange its notes for notes of other denominations.

GENERAL BUSINESS

57-79. The National Bank may :

- (a) discount and negotiate commercial drafts and promissory notes, drawn in Austrian currency and payable in Austria, securities eligible as collateral for loans (*vide* (b)), interest certificates and warehouse receipts. None of above to exceed three months' currency. Bills to bear, as a rule, three good names and in any case two ; warehouse certificates to bear two good signatures. Subject to above conditions Bank may discount (a) bills relating to sums borrowed to meet Customs and other State taxation liabilities, presented by Departments concerned, and (b) bills issued by commercial undertakings of Federation, Provinces or Municipalities, whose accounts are separate from those of State ; Bank may also discount securities on which loans may be granted and dividend warrants connected therewith if payable within three months. (Bills to be examined by Committees of scrutiny) ;

(b) grant loans on movable property for not more than three months against :

- (1) gold and silver, minted and unminted,
- (2) securities (other than shares) quoted on Vienna Stock Exchange,
- (3) bills in Austrian or foreign currency due within six months, and eligible for discount,
- (4) foreign values (Devisen¹) and foreign currency.

Directors shall establish the terms for loans granted and shall decide what securities may be accepted as collateral by Bank and to what extent of quoted value, and up to what total value.

If Bank's loans exceed volume of bills held, rate charged on advances to be raised to one and a half times rate of discount. The grant of Lombard loans² to Issuing Houses on securities issued by them is prohibited.

- (c) open current, deposit and clearing accounts, interest-bearing or otherwise, except that no interest is allowed on current and clearing accounts ;
- (d) issue cheques on its own funds ;
- (e) execute transactions on commission, buying after receiving cover and selling after having received delivery.
- (f) deal in gold and silver, minted and unminted ;
- (g) deal in foreign exchange.

RELATIONS WITH THE STATE

45. Government to appoint State Commissioner and Deputy with powers of supervision to ensure that Bank acts in accordance with Statutes.

Bank may be required to defray cost.

¹ The term "Devisen" is defined in Article 85 of the Statutes as covering foreign bills of exchange in currencies not having undergone any violent fluctuations for exchange, payable at leading banking centres in Europe or America, and vouched for by Banks of unquestioned solvency, but otherwise fulfilling conditions of admissibility for discount. Credit balances and cash deposits, available at any time and held on similar conditions, are also covered.

² Lombard loans are loans on the security of movable property.

46. State Commissioner may attend all meetings of Boards in advisory capacity, and has right to protest against any decision which he may consider contrary to existing laws or statutes.

47. Any decision, so protested against, to be suspended and to be settled, if possible, in agreement with Government. Failing this, matter to be referred to arbitration of Court composed of President of Supreme Court and four members, two appointed by Government and two by Bank.

50. Neither Confederation nor provinces nor municipalities in any way, either directly or indirectly, to have recourse for their own purposes to resources of Bank unless they have first paid in equivalent of notes received in gold or foreign values.

Government is bound not to issue State paper money during term of Bank's privilege, and to undertake no measures likely to hinder Bank in fulfilment of obligations under Article 1, paragraph 2 (*vide supra*).

Board has right of complaint to Court of Constitution (*Verfassungsgericht*) if above obligations are infringed.

Bank may demand that, pending decision, measure complained of should be suspended. President of Court to give decision on such application within 24 hours.

51. Bank to carry out transactions on commission for and on account of Government, provided such transactions do not result in balance to debit of Government.

Bank to manage Government account.

State so far as possible to concentrate its money transactions at Bank.

Bank may enter into other transactions, authorised by statutes, with State; but such transactions must not entail granting of loans or credit by Bank.

113. Assets and revenue of Bank shall not be liable to taxation, with exception of tax on real estate.

114. Books and vouchers of Bank and deeds drawn up by it shall be exempt from stamp and other duties.

See also paragraphs :

99-100 under Profits and Reserve Fund for Government share of profits,

3 under Branches *re* opening of branches,

26, 27 under Management for State appointments,

80 under Note Issue *re* fixing denomination of notes,
103 under Term of Charter *re* Liquidation.

RETURNS

96. Annual balance to be drawn up as on 31st December.
Securities to be shown at current price, except that if higher than cost price, latter price shall be basis.

Only administrative expense which may be spread over several years is cost of issue of new forms of notes.

101. Return of assets and liabilities as on 7th, 15th, 23rd and last day of each month to be published in prescribed form not later than on seventh working day thereafter.

Balance sheet and profit and loss account to be published not later than eight days before annual general meeting.

TERM OF CHARTER AND LIQUIDATION

102. Term of Charter to 31st December 1942.

Three years before expiry of privilege (31st December 1942), the General Meeting to decide whether to apply for renewal. If so, two years' notice must be given to Government.

103. Company may be liquidated with authorisation of Legislature before expiry of privilege. Such consent shall not be required if Government infringes obligations laid down in the law of 24th July 1922 regarding Bank of Issue or in these Statutes. Decision to liquidate requires three-quarters of votes at extraordinary meeting called *ad hoc*.

104. Federal Government is, with sanction of Legislature, entitled to take over business of Bank at its real value in event of expiry of privilege (102), loss of privilege (84) or liquidation before expiration of privilege (103).

BELGIUM

NATIONAL BANK OF BELGIUM

CAPITAL

Art. 6.¹ Capital—200 million francs in 200,000 bearer shares of 1000 francs each.

¹ Numbers refer to Articles of Statutes of January 1927.

PROFITS AND RESERVE FUND

Art. 14. The Reserve to be used :

- (a) to make good any losses of capital ;
- (b) to make the annual dividend up to 6 per cent of the nominal capital.

When the right of issue of the Bank ceases, three-fifths of the reserve to be acquired by the State.

Art. 15. Premium on the issue of new shares to be credited to reserve.

Art. 37. To arrive at net profits after bringing all expenses to account, there must be deducted for the benefit of the State the profit resulting from the difference between $3\frac{1}{2}$ per cent and the actual rate of interest on discount or loan operations.

Art. 38. The annual net profits to be divided as follows :

1. six per cent to shareholders. Any deficiency below this amount being made good from the reserve fund.
2. Of the excess :
 - (a) ten per cent to the reserve fund,
 - (b) six per cent to the staff or staff organisation.
3. Of the surplus after payment of 2 :
 - (a) three-fifths to the State,
 - (b) two-fifths to the shareholders as additional dividend, unless the Council decides to pay this two-fifths, in its totality or partially, to a special reserve fund.

BRANCHES

Art. 2. Branches and Agencies in the chief towns of the judicial areas (*arrondissement judiciaire*) and in any other desired locality on agreement with the Government.

MANAGEMENT

Art. 43. The Bank is directed by a Governor with a Board of Directors, and administered by an Administrative Council (*Conseil de Régence*), and is under the supervision of a Board of Censors.

There is also a Discount Committee.

*Method and Conditions of Appointment :
Governor and Board of Directors*

Art. 44. The Governor is nominated by and can be dismissed or suspended by the Crown. The appointment is for a term of five years, which can be renewed.

Art. 46. The Governor may not be a member of either Chamber or hold any State pension.

Arts. 47, 48. The Board of Directors consists of the Governor as President and three directors, elected by the General Meeting for six years and eligible for re-election. They must be Belgian subjects by birth.

Art. 52. Neither the Governor nor Directors may be on the directing bodies of any commercial or industrial body, with the exception of the Colonial Bank of Issue.

Administrative Council

Art. 53. The Administrative Council consists of the Governor, Directors and nine Regents.

Art. 54. The Regents are elected by the General Meeting for three years. They are eligible for re-election.

(1) Three of the members are elected from a double list of candidates submitted for each vacancy by :

(a) Representatives of the Council of Industry and Commerce (membres conseillers de groupe élus par les délégués de classe du Conseil supérieur de l'industrie et du commerce) and the members of the Council of Trades and Commerce (Conseil supérieur des métiers et négoce), each body submitting one candidate.

(b) The members representing industrial or other occupations on the Trade Council (Conseil supérieur du travail).

(c) The elected or co-opted members of the Council of Agriculture (Conseil supérieur de l'agriculture).

(2) The remaining members are elected directly, and must be leading personages in commerce, industry or banking.

Board of Censors

Arts. 55, 56. The Board of Censors consists of 10 members elected by the General Meeting for three years, who are eligible

for re-election. Three are elected from lists submitted as in Article 54.

Art. 57. No member of either Chamber may be a member of the Board of Directors, a Regent or on the Board of Censors.

Powers

Governor and Administrative Council

Art. 62. The Governor can suspend the execution of the decisions of the Administrative Council pending submission to an urgency meeting of the General Council.

He reports to the Government any decision which would be contrary to the laws, statutes or interests of the State.

Art. 63. The Administrative Council must meet once a week. It fixes the conditions of discount and advances and the amount of capital to be used as loans against State bonds or for their purchase, subject to the approval of the Board of Censors.

It deals with questions of Staff.

It verifies at least every six months the situation of the Discount Offices of the Bank.

Board of Directors

Art. 64. The Board of Directors takes charge of the daily business of the Bank. It accepts or refuses the applications for discounts and advances, and reports thereon to the Administrative Council.

In case of emergency it may decide on the rates of discount and interest, but must refer the matter to the next meeting of the Administrative Council.

Board of Censors

Art. 67. The Board of Censors has the right to supervise all operations of the Bank and to examine all the books.

It approves the balance sheet, and determines the budget and expenditure on the recommendation of the Administrative Council.

Art. 68. It meets at least once a month.

General Council

Art. 69. The Governor, Directors and members of the Administrative Council and Board of Censors form the General Council. It meets at least once a month to consider the general situation.

Discount Committees and Offices

Arts. 72, 73. The Discount Committee at the Head Office (Brussels) consists of two sections over each of which one of the directors presides. Each section consists of at least three members nominated by the General Council.

It examines the securities offered and advises the administration thereon.

Art. 3. A discount office or a discount committee¹ is attached to each agency, wherever the Government after consultation with the Bank Administration considers it necessary.

General Meeting

Art. 77. The General Meeting consists of all shareholders holding 30 shares.

Art. 80. Thirty shares give the right to one vote. No one person can exercise more than five votes as shareholder and five as proxy.

Art. 81. The General Meeting is held twice a year (last Monday of February and August). At the February meeting the report of the preceding financial year is submitted.

The General Meeting elects the Directors, Administrative Council and Board of Censors.

Art. 82. Special general meetings can be convened at the request of the Administrative Council and must be convened at the request of the Board of Censors or at least 20 shareholders who are qualified to vote. A special meeting must be convened if there is only one director, or if the numbers on the Administrative Council or Board of Censors are less than an absolute majority of the full number.

Art. 90. No change in statutes can be made except at a general meeting specially convened for the purpose. The consent of the Government is needed.

NOTE ISSUE

Art. 24. The amount of notes in circulation must be covered by easily realisable values.

¹ The discount committees attached to the Head Office and the branch at Antwerp are only consultative bodies. The discount offices at the other agencies are corporative bodies responsible for all discount operations transacted through them.

Art. 25. The form of the notes and the amount of each value issued are determined by the Government in agreement with the Bank.

Art. 26. The notes are exchangeable on demand at the offices of the Bank at Brussels in accordance with the terms of the Royal Decree of October 1926 (*i.e.*, against gold, silver at its gold value, claims payable in gold abroad at the option of the Bank). At branches and agencies payment may be delayed until the necessary funds have been received.

RESERVE

Art. 30. The Bank must hold gold or claims payable in gold abroad equivalent to 40 per cent of the amount of its sight obligations. At least 30 per cent must be in gold.

GENERAL BUSINESS

Art. 17. The Bank's functions are :

1. To discount, buy and sell bills of exchange and other paper arising out of commercial and agricultural operations and Treasury bonds, provided that the amount of latter in Bank's portfolio should not exceed 100 million francs, apart from these held in connection with the stabilisation of the Exchange according to the Royal Decree of 25th October 1926 (Art. 21). Maturity of bills and bonds not to exceed 100 days and bills to carry three good signatures. Two signatures may be taken subject to rules approved by Finance Minister. Security, in the form of warehouses, warrants, goods or public funds, covering total loan may replace one signature (Art. 19).
2. To rediscount abroad paper in its portfolio ; to pledge its paper as security ; to guarantee its discounts and advances ; to acquire assets and credits abroad.
- 3 and 4. To deal in gold and silver and make advances thereon.
5. To collect bills on behalf of third parties.
6. To open current and deposit accounts ; to take custody of securities, precious metals and coins.

7. To make advances on current account or for short term against State or State-guaranteed securities, or similar securities of Luxemburg, under regulations prescribed by Bank and Board of Censors. Maximum term of such advances to be four months, and securities to be taken at four-fifths market value. Only one renewal is allowed without special authority from the Administrative Council (Art. 22).

Art. 18. The Bank may not carry out any business other than that specified in its statutes.

It may not borrow except as laid down in 17 (2) or make advances on mortgages or industrial shares other than preference shares of the Belgian State railways. It may not make advances against or buy its own shares.

It may not take any part, direct or indirect, in industrial or commercial undertakings, or deal in any commodities other than gold and silver.

It may not acquire immovable property other than that essential for its own business.

Art. 23. On the authority of the Finance Minister, the Bank may hold public securities not exceeding amount of capital and reserve.

Art. 31. The Bank may issue transfers, credits at sight or seven days, and cheques.

It may help in the formation and management of clearing houses.

Art. 33. The Bank acts for the General Savings Bank.

Art. 34. The Bank may take over, as security or by way of mortgage, real estate or other property to cover doubtful debts, provided that such property is got rid of within two years, unless an extension of time is allowed by Minister of Finance.

Art. 35. The Bank may perform certain banking services for recognised Mutual Societies.

RELATIONS WITH THE STATE

Art. 32. The Bank acts as bankers to the Treasury without charge.

Art. 91. In addition to any powers given under these Statutes the State has the right to oppose any measure which is considered contrary to the laws, statutes or interests of the State.

Government Commissioner

Art. 74. The Government Commissioner supervises all operations of the Bank. He may be assisted by experts for certain temporary purposes if the Minister of Finance deems it advisable.

Art. 75. He has the right at any time to be informed as to the position of the Bank, and to verify the books and cash.

Art. 76. He may attend the General Meetings, the Boards, Council or Committees when he deems it advisable.

See also :

Arts. 37 and 38 under Profits and Reserve Fund for State Share in Profits.

Art. 2 *re* opening of Branches.

Art. 44 under Management for State appointments.

Art. 25 under Note Issue *re* form of note.

Art. 23 under General Business *re* holding of public securities.

Art. 5 under Term of Charter and Liquidation.

RETURNS

Art. 41. The half-yearly balance sheets and profit and loss accounts to be published in the official Journal.

Art. 42. A weekly statement of the Bank's position to be sent to the Minister of Finance and to be published.

TERM OF CHARTER AND LIQUIDATION

Art. 4. Term of Charter till December 31, 1952.

Art. 5. If the losses of the Bank exceed half its capital, it must be liquidated. Otherwise the consent of the Government and of a three-quarters majority at a general meeting of shareholders, representing at least half the capital, is required for liquidation prior to the term fixed by law.

BULGARIA

NATIONAL BANK OF BULGARIA

PURPOSE OF THE BANK

Art. 2.¹ The chief purpose of the Bank is to maintain the gold value of the notes. For that purpose it is entrusted with the control of the monetary circulation.

¹ Numbers refer to clauses of Act of November 1926.

CAPITAL, PROFITS AND RESERVE FUND

Art. 3. Capital of 1000 million leva. A reserve fund to be created to cover any eventual losses. In addition the Bank may create other funds for special purposes by charges on the net profits.

Art. 4. An annual charge of 25 per cent is to be made on the net profits of the Bank for the formation of the ordinary reserve fund until it equals the original capital in amount. Thereafter the charge may be reduced by decision of the Council.

Art. 5. If the reserve fund is insufficient to meet the losses of the Bank, the balance of the deficit is made good from the original capital, the sum paid out from the capital to be refunded by the State out of public funds.

Art. 6. After the payment necessary for the ordinary reserve fund, 5 per cent of the net profits is set aside for the formation of a pension fund.

Art. 7. The balance after deductions for any special funds agreed upon by the Council to be paid into the Public Treasury, excepting that if the full amount of the original capital has not been paid up the above-mentioned balance shall be used to increase the capital.

As long as the original capital falls short of the full authorised amount, an item of 150 million leva is included in the Budget to pay off the debt due by the State to the Bank. When the authorised capital is fully provided, the budget allotment can include the State's share of net profits of Bank.

BRANCHES

Art. 1. The Bank may establish Branches and Agencies in any town in Bulgaria.

MANAGEMENT

Administrative Council

Art. 13. The administration of the Bank rests with an Administrative Council consisting of the Governor, the Assistant Governors, four members nominated from the heads of departments of the central office of the Bank and four elected from outside the Bank. The latter or their substitutes shall be summoned to all plenary meetings of the Council.

The Governor and Assistant Governors are nominated by

royal decree on the recommendation of the Minister of Finance. They can be dismissed only by decision of the Sobranié on the motion of the Minister of Finance.

The members chosen from the directors are nominated and dismissed by the executive committee.

The four externally elected members and their substitutes must be Bulgarian subjects. They are elected for a period of four years and are eligible for re-election. Two of them and their substitutes are elected, on the initiative of the Chamber of Commerce of Sofia, by the Permanent Commissions of the Bulgarian Chambers of Commerce. The Administrative Council of the Sofia Bourse elects one member and substitute. The fourth member and substitute, who must have recognised qualifications in regard to agriculture, are elected at a general meeting of the Presidents of the General Councils.

Art. 14. The Governor and Assistant Governors shall give a solemn undertaking to the King to conform strictly to the law and statutes of the Bank, and faithfully to serve the interests of the Bank.

The other members shall give a similar undertaking to the Governor.

Art. 17. The Administrative Council manages the capital and assets of the Bank, and fixes the general principles of its policy.

In particular it exercises the following functions :

- (1) fixes the rates of interest and discount ;
- (2) determines the conditions of the various operations of the Bank, the sums that may be employed in the different types of operations and by the various branches and agencies of the bank ;
- (3) determines the securities or merchandise which may be accepted as security ;
- (4) decides which public loans may be subscribed by the public through the intermediary of the Bank ;
- (5) decides on the use of its foreign credits and assets, chooses the correspondents with whom they shall be deposited and determines the conditions of deposit ;
- (6) authorises the closing of legal proceedings and the writing off of irrecoverable or doubtful debts ;

- (7) fixes the form and value of bank-notes, and makes all decisions in connection with their issue and withdrawal ;
- (8) appoints and dismisses the employees of the Bank, and determines their number and fixes their salary. The remuneration of the Governor and Assistant Governors can only be altered by a unanimous decision of the Council ;
- (9) decides as to the opening and closing of branches and agencies ;
- (10) chooses the members of the discount committees ;
- (11) agrees the annual report and Balance Sheet ;
- (12) has the right of advising on all laws and regulations which may affect the resources or operations of the Bank.

Central Administration

Art. 18. The Governor directs the affairs of the Bank and sees that the laws and statutes are complied with. The Assistant Governors carry out the functions he delegates to them.

Art. 19. The Governor and Assistant Governors form the executive committee, which is qualified to deal with all matters within the competence of the Administrative Council, provided that their decisions are submitted to the Council for ratification at its next session.

In case of urgency it may alter the rate of discount. For that purpose all members of the Committee must be present ; in all other cases two members form a quorum, of which one must be the Governor or the Assistant Governor chosen by him as his representative.

Branches and Agencies

Art. 23. The management of the branches and agencies is entrusted to directors and agents.

Art. 25. In each branch and agency a discount committee shall be formed of which the members shall be chosen from a list submitted every two years by the Chambers of Commerce. These lists shall consist of 18 names for Sofia, 12 for all other branches and 9 for all agencies. The candidates must be on the registers of the Chambers of Commerce. They may not be :

- (a) members of parliament ;
- (b) bankers, money changers or lenders at interest ;

- (c) bankrupts ;
- (d) persons sentenced for breaches of public order or for dishonourable commercial dealings.

Art. 26. Two-thirds of the candidates on each list shall be chosen by the Administrative Council as permanent members of the Discount Committee, the remaining third as substitute members.

Art. 27. The branch director or agent acts as President of the Discount Committee.

Art. 28. The members of the Committees receive no remuneration.

Art. 29. The Discount Committees advise, when requested, as to the credit which should be granted to the clients of the Bank. The paper presented for discount shall be examined with equal impartiality at all the Bank's establishments.

Art. 32. The President of the Discount Committee has the right to refuse to discount paper which the Committee has decided might be accepted. In such cases the majority of the members of the Committee may demand a reference to the Administrative Council.

NOTE ISSUE

Art. 1. The Bank has the sole right of issue.

Art. 2. The convertibility of the notes into gold will be regulated by a special Act.

Art. 11. In view of the irrevocable privilege accorded to the Bank, the State undertakes to renounce the right of issue of notes or other paper which could replace notes. The State is, however, authorised to issue through the agency and at the request of the Bank subsidiary coins for sums less than bank-notes and gold coins exchangeable against notes.

Art. 12. All profits made by the State on its subsidiary coinage shall be used to reduce the debt of the State to the Bank.

By Act of 1922 the note issue is limited to the amount advanced to the State by the Bank, namely, 4,700,000,000 leva, together with a sum equal to 12 times the metallic reserve.

RESERVE

Art. 8. The gold reserve against liabilities at sight must not be below 33½ per cent, and the Bank will take steps to raise proportion to 40 per cent.

The gold reserve to consist of :

- (a) gold in coin or ingots ;
- (b) silver in coin or ingots calculated at its market value ;
- (c) " devises " and notes of foreign banks convertible into gold on demand.

Art. 9. The liabilities at sight of the Bank includes :

- (a) the notes in circulation ;
- (b) all other liabilities payable on demand.

In its weekly statements and annual balance sheet the bank shall distinguish between the above categories and publish the proportion of the reserve calculated as in the preceding article.

The Bank may invest its foreign assets in short term securities, provided they can be readily exchanged for gold at any moment in the open market.

By " devises " is to be understood claims in foreign currencies stabilised in relation to gold and held in foreign banks of recognised solvency payable on demand, and bills of exchange of not more than 3 months' maturity payable in stable gold currencies in one of the leading financial centres of Europe and America, and bearing at least three signatures, one of which shall be a bank of recognised solvency.

Art. 10. If the minimum reserve of 33½ per cent is not maintained, the Administrative or the Executive Committee shall immediately be convened by the Governor, who shall propose an increase in the discount rate, or any other steps which seem to him desirable to restore the prescribed cover.

GENERAL BUSINESS

Arts. 34-47. The National Bank of Bulgaria may :

1. discount bills of exchange, arising out of commercial transactions and not exceeding three months' maturity and having normally three and a minimum of two good signatures, State securities, loan coupons or bonds, guaranteed by the State, and warehouse warrants, subject in all cases to conditions as to signatures and maturity that apply to bills ;
2. make advances for period not exceeding three months against following collateral :

- (1) gold or silver ;
- (2) State or State-guaranteed securities and loan coupons, warehouse receipts not exceeding three months' currency and having at least two good signatures ;
- (3) commercial bills, payable in Bulgaria or abroad, in home or foreign currency, with not more than six months' maturity and having at least two good signatures ;
- (4) foreign currency and "devises" (see Art. 9) ;
- (5) deposit receipts of fixed maturity payable in Bulgaria or abroad ;
- (6) certain goods and warrants conveying title thereto ;

the amount of the loan may not exceed two-thirds of the value of the merchandise or four-fifths of the value of the security.

If total advances exceed discounts, rate on loans and advances must be raised ;

3. grant loans and open accounts against merchandise for periods of not more than nine months, but only until special institutions are organised for this type of business ;
4. open deposit and current accounts in home or foreign currency ;
5. issue cheques, letters of credit payable at sight at home or abroad, etc., keep balances abroad for the purpose, and carry out all operations necessary for the profitable employment of its resources ;
6. collect bills of exchange, etc. ;
7. collect on maturity capital and dividend warrants accepted as security ;
8. receive subscriptions for State or other loans ;
9. buy and sell securities and moneys for account of third parties or on its own account, the amount in latter case not to exceed 20 per cent of Bank's capital and the securities to be limited to those of or guaranteed by Bulgarian Government, and quoted on Sofia Bourse ;
10. deal in foreign exchange, negotiate bills abroad, and

make foreign payments for its own account or that of third parties ;

11. buy and sell gold and silver ;
12. open in special cases current accounts in favour of merchants for commercial purposes against guarantee of two persons of known solvency ;
13. take custody of articles of value ;
14. issue certificates of security for the use of public departments against deposits, cheques, securities or bills—certificates may also be issued to foreign firms against blank credits in favour of Bank's foreign correspondents ;
15. discount, without prejudice to the conditions laid down under the Act of July 1922, Treasury bonds up to six months' maturity to extent of 300 million levas, repayable by State within first six months of following financial year, at not less than 5 per cent rate of discount ;
16. give in special cases commercial credits in foreign currency.

Art. 36. The Bank may not :

- (1) make advances to the State except as specified above ;
- (2) make advances to departments, communes, municipalities or similar bodies ;
- (3) engage in commercial or industrial undertakings except in so far as may be necessary for the liquidation of a debt to the Bank ;
- (4) grant any loans without guarantee except under conditions specified in 14 above ;
- (5) make advances against mortgages or engage in transactions of that nature or in general make advances for long periods.

Art. 38. The discount rate, which shall be uniform in all the Bank's branches, is posted publicly and advertised in the official Journal.

Arts. 41-42. As additional security the Bank may accept a mortgage on real estate or shares of companies and private banks, and other securities approved by administration. Real estate coming to the Bank is to be sold by auction and cannot be held by Bank unless necessary for its business.

Art. 43. Bills, warrants, etc., once discounted cannot be renewed.

Art. 46. No advance may be made to institutions on their own securities. Loans or advances must not exceed two-thirds of the value of the goods or four-fifths of the value of securities.

All transactions connected with foreign exchange are carried out by the Bank. A separate Act regulates this monopoly of the Bank.

RELATIONS WITH THE STATE

Arts. 68 and 69. The Bank takes charge of the accounts of the State free of charge. All State receipts to be paid into the Bank, and all State accounts to be held by the Bank.

Arts. 72 and 73. Weekly and annual statements and an annual report to be submitted to the Minister of Finance, who may form a committee of three persons chosen by him from lists drawn up by the Society of Accountants or the Sofia Chamber of Commerce to verify the balance with reference to the books of the Bank.

In cases of disagreement with the Bank, the matter is taken to the High Court for decision.

Government Commissioner

Art. 74. The interests of the State *vis-à-vis* the Bank to be entrusted to a Government Commissioner, nominated by the Minister of Finance, with the right of attendance at all meetings of the Administrative Council, but without the right of voting.

Arts. 75 and 76. The Commissioner sees that the Bank acts in accordance with the laws and statutes, and has the right to protest against any decision which he considers violates this condition. His protest acts as suspensive veto pending a decision by the High Court, to be given within three days of submission of question.

Art. 77. Except as provided for in this Act the Bank cannot be subjected to any regulation drawn up by the Government.

By the Act of July 1922 :

The total amount of advances to the State by the Bank is fixed at 4700 million leva.

No new advances to the State may be made by the Bank except as the result of an agreement between the Minister of Finance and the Inter-Allied Commission.

A sum of 2 per cent on the balance of the sums advanced to the State on current account shall be paid into a special account for amortisation of the advances of the Bank to the State.

For State share in profits see Art. 7, under Capital, Profits and Reserve Fund.

For State appointments see Art. 3, under Management.

For limitation of temporary advances to the State see Art. 34 (15) and Art. 36 (1), under General Business.

RETURNS

Art. 58. At the end of each financial year, the statement of general expenditure shall be submitted to the Haute Cour des Comptes for verification. The only expenses that may be spread over several years are those relating to the issue of notes.

Art. 60. The Bank to publish in a prescribed form :

- (1) statements of its liabilities and assets on the 7th, 15th, 23rd and last day of each month, within a week of the date ;
- (2) the annual balance sheet and profit and loss account within the first four months of the following financial year.

TERM OF CHARTER

For an indefinite period.

CHILE

CENTRAL BANK OF CHILE

CAPITAL

Art. 6.¹ Initial capital 150,000,000 pesos, which may be increased to 200,000,000 pesos by an affirmative vote of eight members of the Board of Directors and on approval of the President of the Republic.

Art. 7. The capital is divided into shares of par value of 1000 pesos.

Art. 12. The shares are divided into Class A, Class B, Class C and Class D shares, holding the same rights as regards dividends and participation in the Bank's assets in case of liquidation.

¹ Numbers refer to Articles of Act of August 1925.

Arts. 13, 15. Class A shares issued to a total of 20,000,000 pesos, to be subscribed entirely by the Nation and to be inalienable without express authority of Congress.

Arts. 17 and 18. Class B shares to be subscribed for exclusively by national banks which carry on a commercial banking business in Chile, a national bank being a bank chartered under the laws of Chile the majority of whose stock is owned by citizens of Chile.

Arts. 19 and 20. Every such national bank shall become a member of the Central Bank of Chile by holding Class B shares to a total par value equal to 10 per cent of its paid-up capital and surplus, the amount being adjusted annually by further purchases or by sale of shares.

Arts. 23 and 24. Class C shares to be held by foreign banks conducting a commercial banking business in Chile, a foreign bank being a bank which receives its concession either from a foreign Government or the Government of Chile, but of which a majority of the capital stock is owned by persons who are not citizens of Chile, or by foreign corporations.

Arts. 25 and 26. Every such foreign bank operating in Chile shall become a member of the Central Bank by holding Class C shares to a total par value of 10 per cent of its paid-up capital and surplus, the amount being adjusted annually.

Art. 29. Any commercial bank, national or foreign, which fails to comply with the above requirements, shall have its concession to do business in Chile withdrawn.

Arts. 22 and 28. Increases in capital resulting from issue of B and C shares do not require sanction under procedure in Art. 6. (*See supra.*)

Art. 31. Class D shares may be held without restriction. Subscriptions for 10 shares or less were to be first accepted in order received. If these with the initial subscription for Classes A, B and C were for less than 150,000 shares (150,000,000 pesos), subscriptions from persons applying for more than 10 shares might be accepted.

PROFITS AND RESERVE FUND

Art. 99. The net profits to be distributed as follows :

- (1) Twenty per cent to surplus fund until and unless this is equivalent to half of the Bank's paid-up capital, and thereafter 10 per cent ; this amount of 10 per cent

may be increased on the affirmative vote of seven Directors and with approval of President of Republic to 20 per cent or more in any year.

So long as the surplus fund equals the paid-up capital the Bank is under no obligation to assign any of its profits to surplus, but on approval of the President of the Republic it may continue to assign 10 per cent of the profits.

- (2) Five per cent to a special employees' benefit fund.
- (3) Out of the balance a dividend up to 8 per cent on the paid-up capital, which shall be cumulative.
- (4) Out of the remaining balance one half to dividends or to a fund for the maintenance of a uniform dividend policy, one half to the Government as a franchise tax for the Bank's exclusive privilege of note issue and other privileges, until this assignment of profits brings the annual dividend up to 12 per cent.
- (5) If any profits remain, 75 per cent to be paid to the Government, the remaining 25 per cent to be allocated according to the decision of the Board of Directors to dividend, special dividend fund or surplus.

BRANCHES

Arts. 3 and 4. Domicile—Santiago. The Bank may establish branches in other cities of the Republic and abroad. The establishment or discontinuance of any branch requires the affirmative vote of eight Directors. The approval of the President of the Republic is required for the establishment of any branch outside the Republic.

Art. 5. The Bank may establish agencies and appoint correspondents in other cities of Chile and abroad, as the Board of Directors deem advisable.

MANAGEMENT

Board of Directors

Art. 33. The Bank shall be controlled by a Board of Directors consisting of 10 members appointed as follows :

Arts. 34-39. By the Government (holders of A shares) 3 Directors

| | |
|---|-------------|
| By holders of Class B shares (national banks) | 2 Directors |
| By holders of Class C shares (foreign banks) | 1 Director |
| By holders of Class D shares (other shareholders) | 1 |
| By the National Agricultural Society and Society for the Encouragement of Manufacturers, acting jointly | 1 |
| Association of Nitrate Producers and the Central Chamber of Commerce, acting jointly | 1 |
| General Board of the Federation of Labour | 1 |

All directors are elected for three years, and are eligible for re-election.

Elections by holders of B, C and D shares are on the basis of one vote for each share.

Except in the case of the directors elected by holders of B and C shares it is laid down that the directors may not be members of Congress, or Directors or employees of member banks.

Art. 40. No banker member of the Board of Directors may vote on matters affecting the relationship of his bank with the Central Bank of Chile or be present at a meeting when such a vote is taken.

Art. 38. The stock of the Bank carries with it no right to intervene in the administration of the Bank, but only to elect members of the Board of Directors.

Art. 44. The Board of Directors elect their President, Vice-President and the General Manager of the Central Bank. An affirmative vote of at least seven Directors is necessary for the election of the President and General Manager.

Art. 45. The President and Vice-President are elected for one year, and are eligible for re-election. The General Manager's term of office is at the discretion of the Board of Directors.

Art. 46. The President and Vice-President may be chosen from among the members of the Board of Directors or from outside the Board. In the latter case they have no right to vote apart from the President's casting vote in case of a tie.

Art. 47. The President and Vice-President may not be members of Congress or hold a salaried position in the Government service, or be director, manager or employee of a member bank, nor may they or any executive head of any of the branches of the Central Bank own any stock in any member bank.

Branch Management

Arts. 50 and 51. Each branch of the Central Bank shall be under the management of a Branch Manager, who is *ex-officio* Chairman of a Branch Board of Directors, consisting of four members in addition to the Chairman. The appointments are made as follows :

- two by the Board of Directors of the Central Bank ;
one shall be a banker and one a business man,
farmer or professional man ;
- one by the President of the Republic ;
- one by the member banks on the basis of stock ownership
within the geographic district of the branch.

Art. 52. The term of office of the Branch Directors (exclusive of the Branch Manager) shall be for two years.

NOTE ISSUE

Art. 65. The Central Bank of Chile has the exclusive right of note issue for 50 years.

Art. 67. The notes shall be of such denominations, not below 5 gold pesos, as the Board of Directors may determine on an affirmative vote of seven members, subject to the approval of the President of the Republic.

Art. 68. The notes are unlimited legal tender.

Art. 69. The notes are payable to bearer on demand at Head Office in Santiago in the following forms at the option of the Bank :

- (a) Chilean gold coins of the weights and fineness provided in the monetary law.
- (b) Gold bars of approximately 100 per cent fineness, of weights not less than 500 grammes.
- (c) Demand drafts or three days' sight drafts on London or New York, payable in gold and drawn on funds in banks of high standing. The premia charged by the Bank above the gold par of the Chilean gold peso not to exceed the cost of shipping, including interest for time of transit from Santiago to foreign centre concerned.

Art. 70. In other cities in Chile, where Bank has branches, notes are payable as in Art. 69 or at Bank's option, when sufficient coin is not available at branch, by drafts at par on Head Office.

Art. 71. To avoid appreciation of the monetary unit the Bank must pay out its own notes on demand in exchange:

- (a) at par for gold coins of the Republic which have been coined after the passage of the Bank Act and not worn below the limit fixed by law, and at the rate of one peso in bank-notes for .183057 grammes of fine gold for other gold coins of the Republic;
- (b) for full weight foreign gold coin or its equivalent in paper money and deposit credits payable on demand at par in such coin at the rate of one peso per .183057 grammes of fine gold paid to the account of the Central Bank's legal reserve account in London or New York. A premium equal to the cost of shipping gold from the foreign city to Santiago may be charged, including interest for time of transit.

Art. 72. If the Bank fails to redeem its notes as provided, it shall be declared "bankrupt on account of suspension of payments" and liquidated.

Art. 73. The notes of the Bank shall be a first lien on all assets of the Bank.

Arts. 74-78, deal with the redemption and retirement of *billetes fiscales* and *vales de tesorería*.

Art. 79. The Government to cease issuing bonds or other obligations that carry the circulation privilege.

RESERVE

Art. 83. Gold reserve to be 50 per cent of notes outstanding and deposits combined and to consist of:

1. gold coin and bars in the vaults of the bank;
2. earmarked gold coin and bars in banks of high standing abroad;
3. deposits payable in gold on demand in banks of high standing in London and New York.

Art. 84. Gold reserve proportion also applies to outstanding *billetes fiscales* and *vales de tesorería* for whose retirement Bank has assumed liability.

Art. 85. If the reserve falls below 50 per cent the Bank shall be taxed as follows upon the deficiency below 50 per cent :

Reserve between 45 and 50 per cent, tax 3 per cent per annum.

Reserve between 40 and 45 per cent, tax 6 per cent per annum.

Reserve between 35 and 40 per cent, tax 10 per cent per annum.

Reserve less than 35 per cent, tax 10 per cent on the deficiency below 50 per cent plus $1\frac{1}{2}$ per cent per annum for each 1 per cent below 35 per cent.

Art. 86. No discount or rediscount rate may be less than 7 per cent when the Bank's reserve has fallen below 50 per cent continuously for one week or more.

Art. 87. Whenever deficiency tax is payable a percentage equal to at least one-half of the percentage rate of the tax shall be added to the discount and rediscount rates, in addition to any increase necessary to bring them up to 7 per cent.

GENERAL BUSINESS

Art. 1. The principal operations of the Bank shall be those of issue and rediscount.

Art. 54. Except as otherwise provided, loans and discounts made by the Bank are subject to the following restrictions :

- (1) No floating credits or overdrafts allowed.
- (2) Maturity of discounted bills, loans, etc., not to exceed 90 days, except in the case of paper fully secured by agricultural products or live stock, when the maturity may be up to six months, but the total of such paper may not exceed one-half of the Bank's capital and surplus.
- (3) The Bank may not purchase or discount or make advances upon the following classes of paper :
 - (a) Paper bearing less than two signatures, except that documents giving the Bank control of actually existing products, the market value of which is at least 25 per cent greater than the loan, may be accepted as collateral security in the place of one signature. The Bank may, however, purchase from member banks single name paper in the form of drafts drawn by the member bank on foreign banks with

maturities not exceeding 90 days, to such an amount as the Board of Directors may provide in the Bank's statutes.

- (b) Paper, the proceeds of which have been or shall be used for the purchase of corporation stocks, bonds or for speculation purposes. The Bank may, however, rediscount for member banks on their endorsement paper of not more than 90 days' maturity carrying as collateral security high grade mortgage bank and corporation bonds of a market value not less than 25 per cent in excess of the par value of the bill or note discounted. The total amount of such paper rediscounted for any member bank may not exceed one-quarter of that bank's capital and surplus.
- (c) Paper, the proceeds of which have been or shall be used for permanent investments or other capital purposes, such as purchase of land, buildings and equipment.
- (d) Obligations of the Government of Chile, municipalities, government railroads and of other government enterprises, to an amount in excess of 20 per cent of the Bank's paid-up capital and surplus. The admission of the above securities requires the affirmative vote of not less than six Directors. On the affirmative vote of eight Directors the above limit of 20 per cent may be increased to 30 per cent for a period of not more than six months.
- (e) Its own shares or paper secured by its own bank-notes.
- (f) The stocks and bonds of private corporation.

Art. 55. The Bank may make loans and discounts for member banks subject to the above restrictions, receive deposits from member banks without interest and carry on operations with them in the purchase and sale of exchange, the transfer of money, the collection of cheques and operations involving the purchase, sale and shipment of gold.

Art. 56. The Bank to act as a Clearing House for member banks in Santiago and other cities of the Republic in which it has branches.

Art. 57. The Bank may conduct the following business with general public :

- (1) buy and sell cable and telegraphic transfers ;
- (2) buy and sell gold coin and bullion ;
- (3) buy and sell or discount bank drafts on foreign countries and foreign bills arising out of the import or export trade, of a maturity not exceeding 90 days, bearing at least two first-class names, or one name together with documents giving the Bank control of merchandise at least equal in value to the amount of the advance and being in process of being marketed ;
- (4) buy, sell or discount domestic bills of exchange and bank acceptances of member banks having maturities not exceeding 90 days' sight, and arising out of the production, transport or sale of merchandise, the current market value of which is at least equal to the amount of the advance.

Regulations with regard to signatures as in (3) above.

- (5) receive deposits payable at sight without interest ;
- (6) buy, sell, or accept as collateral for paper which it is authorised to purchase subject to 3 (d) of Art. 54, the securities enumerated in that Article.

Art. 59. The Board of Directors shall fix from time to time rates of rediscount and discount. The rates may differ for different classes of paper, or according to the length of maturity, but shall be uniform throughout the Republic.

Art. 60. No member bank may rediscount paper with the Central Bank if it is charging its customers more than $2\frac{1}{2}$ per cent above the rediscount rate charged by the Central Bank on the same kind of paper.

Art. 61. The Bank may only hold or purchase real estate which is :

- (a) necessary for its business accommodation ;
- (b) mortgaged to it as additional security for debts previously contracted ;

- (c) conveyed to it in satisfaction of debts ;
- (d) purchased at sales under judgments or at private sales to secure debts due to it.

Art. 62. In the case of (b), (c) and (d), the real estate may not be held for more than three years.

RELATIONS WITH THE STATE

Art. 63. The Bank shall be the chief depository of Government funds. No interest to be paid on Government deposits.

Art. 64. The Bank to act as the fiscal agent of the Government, and it may be appointed as fiscal agent for municipalities, other political divisions or Government enterprises. No charge to be made for transferring Government funds between the Bank's different offices within Republic.

Art. 88. The following obligations of the nation to be included in the concession granted to the Bank :

- (a) To allow the Bank free commerce in gold without restriction or taxation. In case of internal or external disturbances this may be suspended by agreement of the President of the Republic and the Bank.
- (b) To coin gold for the Bank without restriction as to amount at the Mint ; charges determined by law.
- (c) Not to issue any paper money except as temporarily required by existing contractual obligations for the issue of *vales de tesorería*.
- (d) To respect the opinion of the Bank's Board of Directors as to future issues of fiduciary coins and not to increase this circulation when Board by seven affirmative votes requests it not to do so.
- (e) To receive the Bank's notes in payment of all sums due to the Government as long as the Bank continues to redeem its notes.
- (f) To include funds for the payment of Government share subscriptions in the Budget for the year in which they fall due.

Art. 100. Bank to be exempt from all taxes except franchise tax in Art. 99 (see under Profits and Reserve Fund), general real estate taxes on land and buildings, and documentary,

telegraph and cable taxes of general application. This does not exempt owners of Classes B, C or D shares from income tax on dividends.

Government holdings of Stock see Articles 13 and 15, under Capital.

State and increase of capital see Article 6.

Government appointment of Directors see Articles 34 and 50, under Management.

SUPERVISION—RETURNS

Arts. 89 and 90. The Central Bank must report to and submit to examination by the Superintendent of Banking as may be required by the Superintendent in accordance with General Banking Law, and shall be subject to the fees for examination and penalties imposed by the General Banking Law on the same basis as commercial banks.

Art. 91. An annual report must be submitted to the Superintendent of Banking containing such information as he may require in conformity with law for publication within three months of the end of the fiscal year.

Art. 92. Weekly balance sheets must be submitted to the Superintendent of Banking in the prescribed form.¹

Art. 93. The weekly statements must show the percentage of gold reserve against notes and deposit liabilities combined, and the discount rates on various kinds of paper.

Art. 94. The Bank may not make any discount or other loan charges other than those notified weekly to the Superintendent of Banking, who must be immediately informed of any changes.

Art. 95. If the Bank fails to comply with any of the requirements in Articles 91 to 94, or falsifies any data, it shall be subject to a fine not exceeding 20,000 pesos for the first offence and not exceeding 50,000 for subsequent offences.

TERM OF CHARTER

Art. 2. Fifty years.

Period may be extended by legislation on petition of the Bank.

¹ See p. 70.

COLOMBIA

BANK OF THE REPUBLIC OF COLOMBIA

CAPITAL

Art. 4, § 1.¹ Ten million gold pesos (\$10,000,000).

Shares in denominations of 100 gold pesos. They may not be sold to foreign Governments.

§ 5. Shares divided into class A, B, C and D shares, carrying equal rights as regards dividends and participation in the Bank's assets in case of liquidation.

§ 6. *Class A shares*.—Amount : \$5 million, to be subscribed by Government. They carry no voting power.

§ 7. They may not be alienated, pledged or taxed without authorisation of Congress.

§ 8. Should the Government sell or transfer title to any class A shares they shall be converted into B, C or D shares.

§ 11. *Class B shares* to be subscribed by national banks which carry on a commercial banking business. A national bank is a bank chartered under the laws of Colombia, the majority of whose stock is owned by citizens of Colombia.

Every national commercial bank and every commercial department of a national hypothecary bank is authorised to purchase Class B shares to an amount equivalent to 15 per cent of its paid-up capital and surplus, but not more or less than this amount.

§ 16. *Class C shares* to be subscribed by foreign banks carrying on a commercial banking business in Colombia.

§ 17. A foreign bank is a bank chartered in Colombia, the majority of whose stock is owned by persons not citizens of Colombia.

Such banks are authorised to purchase Class C Shares to an amount not more and not less than 15 per cent of the paid-up capital and surplus apportioned to its business in Colombia.

§ 13, 18. The figures for Class B and Class C shares shall be adjusted annually.

§ 23 (as amended 1925). *Class D shares* to be subscribed by the general public. They shall only carry voting power so long as an amount equal at par to \$100,000 is held by shareholders.

¹ Numbers refer to Articles of Act of 1923. Amended 1925.

§ 30. Capital other than Class A shares may be increased by affirmative vote of eight Directors, subject to the approval of the National Executive.

PROFITS AND RESERVE FUND

Art. 25. The net profits of the Bank shall be distributed as follows :

- (a) twenty per cent to the surplus fund until and unless this equals half of the Bank's authorised capital ; thereafter 10 per cent, provided that the Board of Directors by affirmative vote of at least seven members and with the approval of the Government may still allocate 20 per cent in any year ;
- (b) five per cent to an employees' benefit and pension fund ;
- (c) out of the balance a dividend up to 12 per cent ;
- (d) out of the balance still remaining one-third shall be paid in dividends, and two-thirds to the National Government as a franchise tax for the Bank's privileges.

BRANCHES

Art. 3. Branches may be established in the capital of any Department and in other cities of importance. The establishment or discontinuance of any branch requires the affirmative vote of seven Directors (or eight, if the number on the Board is ten).

Agencies must be established in the capital of each Department where there is no branch. Agencies may be established or correspondents appointed in other cities in Colombia or abroad on decision of the Directors.

MANAGEMENT

Appointment of Directors

Art. 4, § 6. The Government, by reason of its holding of stock and the quasi-public character of the Bank, is authorised to appoint three Directors.

§ 10. If the Government reduces its holdings of Class A shares below a par value of \$4 million, but not below \$2 million, its representation on the Board of Directors shall be reduced to two. If its holdings are reduced below \$2 million its

representation shall be reduced to one. It shall always have at least one representative on the Board.

§ 15. Holders of Class B shares (national banks) shall elect four members of the Board of Directors on the basis of one vote per share.

Two of these shall be bankers and two business men, farmers or professional men.

§ 32. Holders of Class C shares (foreign banks) shall elect two members of the Board of Directors on the basis of one vote for each share. One of these shall be a banker, the other a business man, farmer or professional man.

§ 23, as amended 1925. Holders of Class D shares (general public) may elect on the basis of one vote per share one member of the Board, provided that shares equal at par \$100,000 are outstanding.

§ 6 and § 29. Term of Office for directors elected by the State, three years. For all other directors, two years.

All directors are eligible for re-election.

Amendment 1925.—As regards business men, farmers or professional men elected by Class B or C shareholders, civil servants and managers, directors, employees, auditors and shareholders in other banks are ineligible for the Board. Exceptions may be made in the case of shareholders in other banks whose holdings are so small as not to give the owner importance in the bank.

Art. 5. A substitute director to be elected for each director, and in the same way.

Art. 7, § 2. The majority of the members of the Board of Directors shall be Colombian citizens.

Art. 8, § 3. Members of the Board of Directors must not be relatives of each other or of the Governor or Deputy-Governor within the fourth degree of consanguinity, or within the second degree of relationship by marriage, nor may they be partners of the same firm.

Appointment of Governor

Art. 8, § 1. The Governor to be elected by the Board of Directors by at least seven affirmative votes, and the Deputy-Governors by at least six affirmative votes. If there are ten members on the Board, the affirmative votes required are eight and seven respectively.

§ 2. The Governor and Deputy-Governors may not hold a salaried position in the Government service, or be a manager, director or employee of another bank.

Powers of the Board of Directors and Shareholders

Art. 7. The control of the Bank shall be in the hands of the Board of Directors, and the stock of the Bank carries with it no voting power except the power to vote for members of the Board of Directors.

Administration of Branch Offices

Art. 9, § 1. Each branch of the Bank to be under a branch manager appointed by the Board of Directors.

He shall act as Chairman of a Branch Board of Directors, consisting of four members in addition to the Chairman. Of these, two are appointed by the Board of Directors at the Head Office, one of whom shall be a banker and one a business man, farmer or professional man; one is elected by the member banks within the Department and the other member is appointed by the National Executive.

Term of office, two years.

§ 2. A substitute director to be elected for each Branch Director, and in the same way.

§ 3. The Branch Managers and Boards of Directors shall only have such powers as are conferred on them by the Board of Directors of the Bank.

NOTE ISSUE

Art. 16, § 1. The Bank has the exclusive right of note issue for a term of twenty years. The notes shall be issued in terms of the gold peso of the weight and fineness fixed by law.

§ 2. In the case of bankruptcy the notes shall have a prior lien over the other liabilities of the Bank.

§ 3. Notes may be issued only for the following purposes :

- (a) purchase of gold coin or bullion ;
- (b) purchase or discount of drafts and bills of exchange on foreign countries of maturities not exceeding 90 days, and bearing at least two responsible signatures, or one name in addition to that of the

bank obtaining the rediscount if the bill is secured by shipping documents giving the Bank control of merchandise in process of shipment, having a value equivalent to the amount of the bill. Further, the Bank may issue notes for the purchase from member banks of single-name paper in the form of drafts drawn by them on foreign banks with maturities not exceeding 90 days' sight, up to such an amount as the Board of Directors may provide in the Bank's statutes;

- (c) for discount and rediscount of commercial or agricultural paper mentioned in Article 11, provided that in no case shall the Bank issue notes for the purchase of land, buildings or mortgages on real estate;
- (d) for the purchase and retirement of "cedulas de tesorería".

Art. 17. The notes shall not have forced currency, but shall be considered as legal money for all penal purposes, and shall be receivable for all taxes and other dues, so long as the Bank shall redeem its notes in accordance with this law.

Art. 19, § 1. The notes shall be convertible at sight at the Head Office. In the other cities where there is a branch or agency the notes shall be convertible in gold on sight up to the amount of funds available, and beyond that they shall be exchanged for cheques on the head office.

§ 2. If a branch fails to redeem notes the person presenting them has the option of (a) receiving cheques on the main office; (b) receiving gold after allowing time for transport from the head office; (c) receiving demand drafts on New York payable in gold, for which a premium may be charged as in § 5 below.

§ 3. If the Bank fail to comply with these obligations it shall be declared "bankrupt on account of suspension of payments", and the procedure shall be in accordance with the provisions of mercantile legislation.

§ 5. In time of emergency, upon the affirmative vote of six members of the Board of Directors, and with the approval of the respective Minister, the Bank may substitute for domestic gold coin, in the redemption of its notes, sight or cable drafts on New York, payable in gold coin, and may charge a premium

not in excess of the actual cost of shipment of gold in bulk between New York and the city in Colombia concerned.

Art. 24. Arrangements are made for retiring the various forms of Government paper money from circulation, the Bank to act as agent for the Government free of charge.

Art. 26. Profits accruing to Government from Bank (Article 25, under Profits and Reserve Fund) and deficiency tax (Article 18, under Reserve) to be used by Government for retiring Government paper with view to giving Bank monopoly of note issue "at the earliest practicable time".

RESERVE

Art. 18. Minimum gold reserve to be 60 per cent of outstanding notes and deposits.

Up to two-fifths of this may be kept in the form of demand deposits, payable in gold in banks of high standing in foreign financial centres.

§ 3. If the reserve falls below 60 per cent the Bank shall be subject to the following penalties:

(a) taxes on the deficiency:

| | |
|--|--|
| If the reserve is below 60 per cent and not below 56 per cent | } a tax at rate of 4 per cent per annum. |
| If the reserve is below 56 per cent and not below 54 per cent | } a tax at rate of 6 per cent per annum. |
| If the reserve is below 54 per cent and not below 52 per cent | } a tax at rate of 8 per cent per annum. |
| If the reserve is below 52 per cent and not below 50 per cent | } a tax at rate of 10 per cent per annum. |

If it falls below 50 per cent an additional tax on the entire deficiency, increasing by 2 per cent for every 1 per cent by which the reserve percentage falls below 50 per cent.

(b) If the reserve percentage is below 60 per cent continuously for one week no discount or rediscount rate of the Bank shall be below 8 per cent.

Whenever a deficiency tax is imposed an amount equivalent to at least half the rate of the tax shall be added to the discount and rediscount rates.

§ 20. The reserves required of other banking concerns is defined as 50 per cent and 25 per cent in respect of demand

and time deposits (*i.e.* payable on less or more than 30 days' notice respectively).

Member banks require reserves of only half the percentage laid down for non-member banks, and non-interest-bearing demand deposits in Bank of the Republic may be counted as legal reserve up to half the amount of the legal reserve requirements.

GENERAL BUSINESS

Art. 11, § 2. The Bank may not make any loans, discounts or investments in notes, bonds or bills exceeding 90 days' sight maturity from the date of loan, etc., except in the case of paper secured fully by agricultural products of live stock, when the maturity may be up to six months. Provided that paper with maturity in excess of 90 days shall not exceed one-third of the Bank's paid-up capital and surplus.

§ 3. The Bank may not grant floating credits or allow overdrafts.

§ 4. The Bank may not purchase, discount, advance upon or accept as security any of the paper enumerated below, except as additional security to protect itself on loans previously made, in which case it may hold such paper for a period not exceeding one year.

§ 5. (a) Paper bearing less than two responsible signatures, including that of the rediscounting bank, except that for one of the non-bank signatures collateral may be accepted in the form of bills of lading, warehouse receipts or other paper giving the Bank control of merchandise, the current market value of which is at least 25 per cent greater than the amount of the loan.

§ 6. The Bank may, however, purchase single name paper from member banks in the form of drafts drawn by them on foreign banks of maturity not exceeding 90 days' sight up to such amount as the Board of Directors may provide in the statutes of the Bank.

(b) and (c) Paper, the proceeds of which have been or may be used for speculation or for permanent investments, such as the purchase of lands or buildings or for other capital purposes.

(d) Notes or other obligations of the National Government, the Departments and Municipalities, to a total amount in excess of 30 per cent of Bank's paid-up capital and surplus. (Temporary exception is made in connection with the withdrawal of the "cedulas de tesorería".)

§ 7. All loans and purchases made under (d) above require the approval of seven members of the Board of Directors.

(e) Its own shares or paper secured by its own shares or bank-notes.

(f) The stocks of corporations—transportation, mining, commercial, industrial or agricultural—or paper secured by such stocks.

Art. 12, § 1. The Board shall fix from time to time the rate of rediscount for eligible paper of member banks, and of discount for eligible paper offered by public. Its rates may differ for different classes of paper.

Relations with Member Banks

§ 2. No member bank shall be permitted to rediscount paper at the Bank of the Republic if it is charging its customers on paper of the same kind and maturity discount rates greater than the rediscount rate charged by the Bank of the Republic plus 3 per cent.

Art. 13. The Bank may :

- make loans and discounts for member banks subject to limitations laid down in Article 11 ;
- receive deposits from member banks ;
- carry on operations with them in bills of exchange of the kinds mentioned in Article 11, and operations involving the purchase or sale of gold coin and bullion.

It shall act as clearing house for member banks in Bogota and other cities in which it may have branches.

None of the above privileges shall be granted to banks that are not member banks, *i.e.* banks not qualified by ownership of shares of Classes B or C (*vide* Article 4).

Business with General Public

Art. 14. The Bank is authorised to conduct the following business with the general public :

- (a) buy and sell cable transfers ;
- (b) buy and sell gold coin and bullion ;
- (c) buy and sell or discount bank drafts on foreign countries and foreign bills of exchange arising out of the import and export trade, such drafts and bills to have maturities not exceeding 90 days' sight, and to bear at least two signatures of high standing, or one name together with bills of lading or other documents giving the Bank control of merchandise having a ready market and in process of being marketed ;
- (d) buy, sell or discount domestic bank acceptances, bills of exchange or promissory notes of maturities not exceeding 90 days' sight, arising out of the production, transportation or sale of merchandise, the current market value of which is at least equal to the amount of the advances, such paper to bear at least two signatures of high standing or one signature with bills of lading, etc., as defined in (c) above ;
- (e) receive deposits payable at sight ;
- (f) buy or sell or accept as collateral for loans, subject to the limitations imposed by law, obligations of the National Government, Departments or Municipalities.

Art. 15, § 1. The Bank may purchase, hold or convey only such real estate as is necessary for its accommodation in the transaction of its business, is mortgaged to it as additional security for debts or as it acquires in satisfaction of debts or to secure debts due to it.

§ 2. It may not hold real estate, or titles thereto, purchased to secure debts, for a longer period than two years, except that the Board of Directors may extend this period for two years by seven affirmative votes.

RELATIONS WITH THE STATE

Art. 21. The following obligations are incurred by the State:

- (a) to allow the Bank free commerce in gold without any governmental charge or obstacle, provided in case of internal or external disturbances the Government and the Bank may agree to suspend temporarily the privilege of free commerce in gold;
- (b) to coin gold for the Bank at the mint charges determined by law;
- (c) not to issue any additional paper money, nor allow any other concern to issue any documents that may circulate as money during the period of the Bank's charter;
- (d) to respect the opinion of the Bank's Board of Directors as to any future emissions of subsidiary coins;
- (e) to receive the Bank's notes in total or partial payment of all taxes and dues to the National Government, so long as the Bank redeems its notes in accordance with the requirements of this Act.

Art. 22. The Bank shall be the chief depository of National Government funds.

Art. 23, § 1. The Bank shall be the fiscal agent of the National Government.

§ 2. It may act as depository and fiscal agent of the departmental and municipal Governments.

Art. 28. The Bank shall be required to make such reports to the Superintendent of Banking and to submit itself to such examinations by the Superintendent of Banking as he may require (see also under Returns).

See also Government holding of shares, Art. 4, § 6-8, under Capital.

Share in profits, Art. 25, under Profits and Reserve Fund.

Appointment of Directors, Art. 4, § 6, under Management.

Consent of Government necessary for an increase in capital, Art. 4, § 30.

RETURNS

Art. 28, § 2. The Bank shall submit weekly to the Superintendent of Banking a balance sheet in the form he may prescribe.

§ 3. The balance sheet shall be accompanied by a statement of the percentage of the gold reserve in the vaults and on deposit abroad which the bank is carrying against its notes and deposit liabilities combined, and a statement of its discount rates on various kinds of paper.

§ 4. It shall be unlawful for the Bank to make any discount or loan charges other than those announced weekly as above, and the Bank must immediately notify the Superintendent of Banking of any change it may make.

§ 5. Failure to comply with the requirements of the preceding paragraph, or deliberate falsification of any of the data required, renders the Bank liable to a fine.

§ 6. The weekly reports shall be published within three days of the date they cover in the *Diario Oficial* and such other papers as the Superintendent of Banking may require.

Art. 29 (2). The auditors of the Bank shall be provided for by the statutes. They may assist the Superintendent of Banking in the examination of banks, and shall so assist when required by the respective Minister.

TERM OF CHARTER

Art. 2. Twenty years.

CZECHOSLOVAKIA

NATIONAL BANK OF CZECHOSLOVAKIA

CAPITAL

§ 58.¹ Original Capital, 12 million United States Dollars,² in shares of \$100 inscribed stock. The capital may be increased to \$15 million on resolution of the general meeting. Increase or reduction of capital can become law by resolution of the general

¹ Number refer to clauses of Act of April 1920 as amended April 1925.

² The Capital is expressed in the accounts of the Bank in Czechoslovakian crowns at the established rate of exchange.

meeting, but manner of issue or withdrawal of stock is subject to approval of Ministry of Finance.

§ 44. One-third of the capital held by the State.

§ 45. If the whole capital is not subscribed, the Bank is free to retain the remaining shares or sell them, but not below their nominal value. The proceeds above the nominal value accrue to the reserve fund.

The Bank may not exercise any rights arising from these shares at the General Meeting, nor can unsold shares participate in the profits of the company.

PROFITS AND RESERVE FUND

§ 132. The net profits are divided as follows :

- (a) a dividend of 6 per cent to shareholders. If the profits are not sufficient for this purpose, the general meeting is authorised to raise the dividend to 6 per cent out of the reserve fund (Art. 134);
- (b) of the balance 10 per cent to the reserve fund until this reaches one-half of the joint-stock capital. Thereafter all allotments cease.
- (c) Of the sum remaining one-half to the State and one-half to the shareholders, provided the total dividend is not in excess of 8 per cent;
- (d) in case the portion due to the shareholders increases the dividend above 8 per cent, one-quarter of the surplus is paid to the shareholders and three-quarters to the State.

§ 135. One-half of the reserve fund must be invested in State bonds of the Republic.

The reserve fund is used :

- to cover any losses;
- to raise the dividend to 6 per cent if the net profits are insufficient.

In case of liquidation, one-half of the reserve fund belongs to the shareholders and the other half invested in State bonds to the State.

MANAGEMENT

§ 71. The Bank is managed by :

- (a) Bank Board, consisting of the Governor and nine or ten members.

(b) An Audit Committee of five members.

(c) The General Meeting of Shareholders.

§ 72. The Governor.—Appointed by the President of the Republic for a term of five years. Eligible for re-election. He can be suspended or dismissed by the President on the motion of the Government. He must not hold any other paid post or occupy any official position, and must forego any other income or pension due to him from the State.

§ 73. The Bank Board consists of six directors elected by the shareholders for a term of six years, and three directors appointed by the Government for six years. Directors are eligible for re-election or reappointment. Nominated directors may be recalled or suspended by the President on the motion of the Government.

The Board can elect a tenth member who need not be a native-born citizen of the Republic of Czechoslovakia.

§ 74. The Vice-Governor is appointed from among the six elected members by the President of the Republic.

§ 75. The Audit Committee consists of five members elected by the General Meeting for a term of five years. They are eligible for re-election. The Chairman is nominated by the Governor from among the members.

§ 79. The Governor and members of the Board must be native-born citizens of the Republic of Czechoslovakia (except as specified in § 73 above).

§ 81. Members of Board or Audit Committee must not be members of the legislature, or directors of, or employed by, a commercial Bank.

§ 83. The Governor has to make an affirmation to the President of the Republic that he will perform his duties faithfully. The Directors and members of the Audit Committee make a similar affirmation to the Governor.

§ 91. Governor and three members of Board form an Executive Committee.

§ 93. The Audit Committee examines the condition of the Bank's business and investigates the assets of the Bank from time to time.

Examines the annual balance sheet and the profit and loss account and reports thereon to the General Meeting.

The Audit Committee may offer objections to any resolution

passed by the Board, and in case of disagreement can appeal to a specially convoked General Meeting.

§ 95. Censors.—The Bank Board appoints Censors to examine bills submitted for discount at the Head Office and branches.

The Censors act in an honorary capacity. They must be persons acquainted with local industrial, agricultural and economic conditions. It is the duty of the Board to ask the Chambers of Commerce, Agricultural Boards and other bodies for expert opinion on the candidates. The Censors may not be leading functionaries or officials of profit-making financial institutions.

General Meeting

§ 104. The ordinary general meeting is held annually, not later than February.

A special meeting may be held whenever necessary. It must be convoked :

- (a) if the elected members of the Bank Board fall below four, or the number of the Audit Committee below three;
- (b) if the Audit Committee demand it;
- (c) if at least 50 shareholders entitled to participate in the meeting demand it.

§§ 106, 110. The general meeting is attended by shareholders owning at least 10 shares, who are citizens of the Republic of Czechoslovakia.

§ 109. Every participant has one vote only. Voting by proxy is not allowed.

§ 115. The general meeting :

1. receives the report of the Board and Audit Committee for the previous financial year;
2. elects the members of the Bank Board;
3. elects the members of the Audit Committee;
4. deals with proposals to amend the statutes;
5. deals with proposals to vote an increase or reduction of the capital;
6. ratifies the annual accounts.

Request for prolongation of Charter must be entered on agenda in time for arrangements in § 11 (see under Term of Charter and Liquidation) to be kept.

Bank Board and Executive Committee

§§ 84, 85. The Governor presides over the meetings of the Bank Board. He sees to the due observation of the laws relating to the Bank, to the keeping of the Statutes and the internal regulations. He superintends in the name of the Board the administration of the property and business of the Bank.

§ 87. The Bank Board is charged with the administration of the property, the management of and supervision of the entire business of the Bank. In particular :

It fixes the detailed conditions of the different branches of the business, the rate of discount and interest, the limit of credit granted to customers and the details of loans.

It authorises financial institutions to act as branches of the Bank.

It fixes and changes the internal regulations within the limit of the law.

It deals with questions of staff.

It submits the reports and accounts to the General Meeting.

It is authorised to acquaint the Government with its views and submit proposals on all questions of currency and State credit.

§ 88. The Board meets monthly.

§ 90. The Board is divided into three departments :

Currency Department (including business in foreign bills).
Credit Department.

Administrative. Department (including the printing of bank-notes).

The distribution of the Directors amongst these departments is determined by the Governor, who appoints from their number a President for each department.

§ 91. The Governor and Presidents of the three departments form an executive committee which is entrusted with the execution of the resolutions of the Board.

It can also act independently in cases of emergency. In such cases it may alter the rate of discount, but must submit its decision for subsequent approval to the Board.

The Executive Committee meets weekly.

NOTE ISSUE

§ 9. The Bank has the exclusive right of issue. The State renounces for the whole duration of the Bank's privilege all right of issuing State notes.

§ 13. The notes are legal tender.

§ 15. The date at which the Bank must pay the notes it has issued in coin on presentation at its head office to be fixed by the Currency law. Failure to fulfil this obligation within 24 hours entails loss of Bank's privilege except in case of *force majeure*. At its branches the Bank shall be obliged to pay in coin only so far as its ready cash allows.

§ 16. The notes will be issued as a rule for denominations divisible by 10, but the Government may permit the issue of 5 crown notes.

§ 27. The claims of owners of bank-notes and creditors holding bank securities payable at sight have precedence before all other claims other than those of the Bank's employees.

RESERVE

Art. VII. 1. From the date at which at least two-thirds of the capital is subscribed to the passing of the Currency Law, the Bank must have a metallic reserve of 20 per cent of the notes in circulation and obligations payable at sight (less the debt in respect of the State notes outstanding).

2. This reserve to be increased by 1 per cent annually over a period of 15 years.

3. For the relation of the reserve to the notes in circulation the average rate of exchange on the New York Stock Exchange in each fiscal quarter as it appears in the last two weeks of the preceding three months shall be decisive.

4. The reserve includes precious metals, three-quarters of which must be gold, foreign valutas, foreign legal tender coins and bills, *i.e.* drafts on the principal banking centres in Europe and America signed by sound banking institutions and otherwise complying with the rules of a bank draft, or short term claims on banks of unquestioned standing in the principal banking centres of Europe and America.

Foreign valutas, *i.e.* bank-notes, coins and bills, if in excess of the metallic reserve, are to be included in the commercial reserve.

§ 29. The commercial reserve consists of values easily convertible into cash acquired by means of such operations as the Bank is allowed to transact under the Statutes.

Art. VIII. 1. In case the reserve falls below the prescribed amount, the Bank is taxed on the difference between the actual and permissible bank-note circulation.

The rate of tax equals the rate of discount :

- (a) plus 1 per cent if the difference between the actual and prescribed reserve does not exceed 2 per cent ;
- (b) a further $1\frac{1}{2}$ per cent for each succeeding impairment of 2 per cent or part thereof.

2. The rate of the tax must not be less than 5 per cent.

§§ 39, 40. The Bank has charge of the circulation of State notes so long as these remain in circulation. These are not included in calculating the proportion of the reserve to notes in circulation.

GENERAL BUSINESS

§ 5. The Bank is to have charge of the money circulation, and its due operation in the State, of the granting of credit to commerce, industry and agriculture, of the establishing of clearing houses, of the organisation and centralisation of State revenues and funds.

§ 32. The Bank takes charge of the coinage in circulation, that is, puts the coins received from the State into circulation, exchanges and withdraws them, and is responsible for the parity of the circulation.

§ 33. It is the duty of the Bank, in the interest of orderly banking, to ascertain the amount of commercial credits throughout the State and control them in order to prevent their misuse. For this purpose the Bank is authorised to demand reports and proofs from any person wherever necessary.

§ 41. So long as trading in transactions in foreign bills and currencies is controlled, the Bank shall be entrusted either wholly or partially with the charge of this business.

Art. III. 1. Until a special enactment is passed charging the Bank with the exchange of notes against specie, the Bank must maintain the relation of the Czechoslovak crown to undepreciated foreign gold currencies at the level of the last two years.

2. For this purpose the Bank must establish a special reserve fund from the profits gained by dealings in bills and precious metals. The contributions to this fund are to be regarded as working expenses.

§§ 121-123. The Bank is authorised :

1. To discount (a) bills originating in commercial transactions and payable in Czechoslovakia within 92 days, having minimum of two, but, as a rule, three good signatures, and (b) securities and coupons payable within three months and eligible as collateral for advances.
2. To make advances against collateral for term not exceeding three months, total of advances ordinarily not to exceed total of discounts. If they should exceed this the interest rate to be raised at least $1\frac{1}{2}$ per cent above discount rate. Eligible collaterals are : gold or silver, warrants or securities quoted on Stock Exchange as laid down by Board, six months' bills, domestic or foreign, and otherwise satisfying the conditions of eligibility for discount, or bank deposit books for State loan.
3. To open deposit accounts and current accounts.
4. To issue drafts and letters of credit.
5. To cash drafts, cheques, etc.
6. To pay matured coupons of securities admitted as collateral.
7. To act as agents for State and other loans.
8. To buy and sell securities or specie on commission.
9. To deal in foreign exchange (bills and currencies).
10. To buy and sell gold or silver coin or bullion.

The Bank rate of discount, which is the same for all banking centres, is fixed by the Board and published in the *Official Gazette*. The rate of interest on advances can be raised or reduced independently of the rate of discount, but it must be at least $\frac{1}{2}$ per cent higher than the rate of discount.

§ 130. The Bank is prohibited from transacting any business other than that stipulated in the Act. In particular it may not :

- (a) accept bills or other paper for other parties ;
- (b) acquire real estate except such as is needed for its own business ;

- (c) acquire State bonds for its own account, excepting as specified above, and for the Reserve Fund (*vide* § 135, under Profits and Reserve Fund);
- (d) acquire its own shares or accept them as collateral.

RELATIONS WITH THE STATE

§ 36. The Bank acts as banker to Government, but the State may place funds with other banks, subject to an understanding with the Bank.

§ 37. The Bank must submit four statements in prescribed form every month to the Ministry of Finance, inform the Ministry of the results of its annual accounts immediately they are closed and send a report of the proceedings of the General Meeting.

An annual report must be submitted to legislative bodies.

§ 44. The State holds one-third of the capital. The right to vote at the General Meeting on account of the State interest is exercised by one plenipotentiary authorised by the Minister of Finance.

§ 63. The Bank is exempt from all taxes, excepting on real estate and dividends to shareholders.

§ 128. The Bank is not allowed to grant directly or indirectly any credit to the State, except as specified in § 135 (see under Reserve Fund), and that with the consent of the Board the Bank may discount custom and tax bills and bills for certified tobacco, salt and mineral products presented by the State Administration.

State Supervision

§ 97. The State exercises supervision over the Bank through a Government Commissioner, who is an official of the Ministry of Finance. He can take part with an advisory vote in any meeting of any of the governing bodies. He can demand to be furnished with reports and vouchers, and must be present when bank-notes withdrawn from circulation are destroyed.

It is his duty to oppose any resolution of the general meeting or other organs of the Bank if they conflict with the laws or Statutes or State interests.

§ 98. If he opposes a resolution passed by the Audit Committee or Executive Committee, the matter is submitted to the Bank Board. In case of a resolution passed by the Bank Board or General Meeting, the matter is submitted to the Government.

Failing agreement between the Bank and the Government, an arbitration court is formed, two members of which are nominated by the Government and two by the Bank. The four nominated elect a fifth member to act as President.

§ 99. Private disputes between the Government and the Bank not covered by the preceding paragraph are decided by the Supreme Provincial Court at Prague.

For State share in profits see Art. 132, under Profits and Reserve Fund.

State appointments see Arts. 72, 73 and 74, under Management.

State and Liquidation see Art. 38, under Term of Charter and Liquidation, and Art. 135, under Profits and Reserve Fund.

RETURNS

§ 131. The annual statement of accounts must be published in the *Official Gazette* at least eight days before the General Meeting. The final accounts must be laid before the Supreme Audit Control Board.

§ 139. The Bank must prepare four statements a month, showing its assets, liabilities and reserves, in prescribed form, to be published in the *Official Gazette*.

TERM OF CHARTER AND LIQUIDATION

§ 11. Charter granted for 15 years.

§ 12. The privileges cease :

- (a) After expiration of the above term, unless the Bank applies for renewal at least two years before it expires.
- (b) If the Bank has not fulfilled its obligations with regard to payment of notes in coin without being able to give as a cause *force majeure*.
- (c) If the Bank has lost more than one-third of its joint-stock capital and if this is not restored within one year.
- (d) By revocation owing to any gross violation of provisions prescribed by law.
- (e) If the Bank itself requires a cessation of its privileges by a resolution of the general meeting subsequently approved by the Government.

§ 38. If Charter expires State has right to take over entire assets with liabilities or only a part of them. If it intends to take over entire business it shall (assuming it is not a case arising under 12 (b) (c) or (d)) inform Bank at least two years before expiry of Charter. In this case there is no liquidation. The State will pay shareholders nominal value of shares plus 10 per cent, and they will also receive half of reserve fund. If State does not intend to take over entire business, it must give Bank a year's notice before expiry of Charter. State in this case will proceed with liquidation with help of Bank staff.

See also § 135, under Profits and Reserve Fund.

§ 141. If the Bank is liquidated without being taken over by the State the General Meeting shall elect a Liquidation Committee of six members.

DENMARK

NATIONAL BANK OF COPENHAGEN

CAPITAL

Art. 7.¹ Share capital 27 million kroner, divided into shares of 2000 kroner (10 shares), 1000 kroner (5 shares), 200 kroner (1 share).

On the resolution of the management of the Bank, and with the approval of the King, the capital may be increased, not, however, beyond 50 million kroner.

Amendment, 1919.—By confirmation of the King the capital may be increased by 3 million kroner, to be taken over by the State at par.

PROFITS AND RESERVE FUND

Art. 70. Out of the annual profit of the Bank a preferential tax of 750,000 kroner shall be paid to the exchequer. Of the remainder the first 5 per cent shall be allocated to the reserve fund until this equals 30 per cent of the stock capital. When this is reached no further allocations to reserve shall be made

¹ Numbers refer to articles of the codified regulations of the National Bank of Copenhagen, 1908, with subsequent modifications, see Scandinavian Banking Laws, 1926, issued by Columbia University Press, New York.

from profits except to make good any reductions below this amount.

Thereafter the shareholders shall receive a dividend up to 6 per cent. Any residual surplus shall be distributed as follows :

25 per cent to the Exchequer, 75 per cent to the shareholders.

The management of the Bank can decide that the three-quarters of the aforesaid residual profits due to the shareholders shall be transferred entirely or partly to a dividend equalisation fund, which may be used entirely or partly on the resolution of the management for increasing the dividend during later years.

Art. 71. The reserve fund may be used in writing off :

1. Losses on the Bank's outstanding loans, not, however, including any decline in the value of the securities of the Bank.
2. The purchase price of and the amount spent for extraordinary work on the Bank buildings, provided it is not found expedient to enter or increase their book value with the amount used.
3. Other extraordinary administrative costs.
4. The payments dealt with in the following provision under 2.

As extraordinary transfers to the reserve fund the following may be used :

1. Premium, if any, on shares in case of increases of the share capital.
2. Half-part of what might appear as profits from calling in of circulating bank-notes, provided, however, that the Bank shall be entitled to write off against the reserve fund half-part of what it may deem expedient to pay against called notes after the expiration of the length of notice.
3. What may be received towards claims previously written off against the reserve fund.

BRANCHES

Art. 6. The management is permitted to establish branches. For the discontinuance of an existing branch the consent of the Royal Bank Commissioner is required.

MANAGEMENT

Art. 39. The Bank shall be managed by 15 directors and four or five managers, according to the determination of the directors and managers.

Art. 40. The directors and managers shall take an oath that they will administer their offices with faithfulness and zeal in strict accordance with the regulations.

Directors

Art. 41. The directors shall be elected by the general meeting of the shareholders from amongst the shareholders entitled to vote.

The three directors who have been longest in office shall resign every year and shall be eligible for re-election.

By an amendment of 1919, on the resolution of the management the board of directors may be increased by two members to be appointed for five years by the Minister of Trade.

Art. 42. Two at least of the directors must be resident in Jutland and two at least in other parts of the country outside Copenhagen.

Art. 44. The directors shall elect a chairman from their number who must resign after one year, but is eligible for re-election. Directors must meet at least once every three months or otherwise as necessary and if demanded by Royal Bank Commissioner or Managers.

Art. 46. The directors shall receive statements of accounts and reports every three months, and are responsible for checking these statements with the books, and shall arrange for the daily audit by the proper officials.

Art. 47. The directors shall approve the accounts for the fiscal year submitted by the managers, and at the proposal of the managers determine the dividend to be paid to the shareholders.

If a director is related to a manager he cannot take part in the approval of accounts.

If the managers are dissatisfied with a decision of the directors they may take the matter to the Supreme Court, whose judgment shall be decisive.

Managers

Art. 49. The King shall appoint two of the managers, one of whom shall be versed in agriculture, and the others shall be appointed by the directors.

The appointments shall be for an indefinite period, subject to dismissal by the King and directors respectively. In the latter case a two-thirds majority is necessary.

Art. 51. The managers must not be partners—active or dormant—in commercial or industrial firms, nor hold office in any other financial corporation.

Art. 52. No bill of exchange may be discounted or other bond accepted by which any of the managers would become indebted to the Bank.

Art. 55. The managers are responsible for transacting the daily and current business of the Bank, according to the Charter, including decisions on discounting, loans, purchase and sale of foreign exchange, bullion and securities, fixing the rates of discount and interest and general organisation. In important cases, concerning which no legal provision exists, they shall consult, if time warrants, the Board of Directors.

The Royal Bank Commissioner

See under Relations to the State.

General Meeting

Art. 64. A general meeting shall take place once a year, at which the annual report and accounts shall be submitted and the election of directors take place. Also any proposals shall be discussed which have been duly submitted by any section of the management or shareholders representing at least one-tenth of the share capital.

Art. 65. If the management wish to apply to the Government for amendment in the charter, their petition must be endorsed by the general meeting.

Art. 66. The managers, six directors or shareholders, representing one-tenth of the capital stock, can demand an extraordinary general meeting.

Art. 67. Danish citizens whose shares have been registered in name for at least six months are entitled to vote.

Each share of 200 kroner shall entitle to one vote; no one,

either on his own behalf or as proxy or in both capacities, shall cast more than 50 votes.

Questions regarding limits of the authority of the general meeting shall be determined by the Royal Bank Commissioner, with appeal to the Supreme Court.

NOTE ISSUE AND RESERVE

Art. 11. The Bank has the monopoly of note issue for 30 years (until 1938). The notes are legal tender, as long as Bank fulfils its liability regarding redemption.

Art. 12. Alterations in the denomination of the notes may be determined by the King on the representation of the management of the Bank, provided that notes may not be issued for amounts less than 5 kroner.

Art. 13. The Bank is bound to exchange on demand at the Head Office its own notes at face value for legal tender gold coin—as regards 5 kroner notes, however, only provided that they constitute an amount equal to legal tender gold coin. [This obligation was suspended from 2nd August 1914 until the end of 1926. From 1st January 1927 Denmark adopted the gold bullion standard, and the obligation was imposed on the Bank of redeeming its notes in gold, subject to a minimum of kr. 28,000.]

Arts. 14 and 15 :

1. The Bank shall be entitled to issue as many notes as the turnover may require, provided the metallic reserves equal 50 per cent of the face value of the notes in circulation and assets in prescribed form are held against the remainder.

2. The metallic reserves may consist of :

- (a) legal tender gold coins at face value ;
- (b) gold in ingots and foreign gold coin valued at 2480 kroner per kilogram pure gold ;
- (c) the Bank's non-interest-bearing demand balances with the Bank of Norway and the Swedish Riksbank, less the debt to the two said Banks ;
- (d) the Bank's non-interest bearing demand balance on giro account with the German Reichsbank.

The stock of legal tender coin shall not amount to less than one-quarter of the compulsory metallic reserve, and (a) and (b) above shall not jointly amount to less than three-fifths thereof.

The assets which can serve as security for notes other than those covered by the metallic reserve include :

bonds for loans against collateral security ; domestic and foreign bills of exchange ; credit balances, payable on demand, with foreign correspondents ; public bonds at rates officially quoted, mortgages for loans on real estate for an amount of not more than 6 million kroner.

Art. 17. The Bank reports monthly to the Royal Bank Commissioner and to the Chairman of the Board on the proportion between the circulation and the assets and metal serving as security.

Art. 18. If any deviation from the proportion of security for the Bank's notes fixed above is shown, the managers are bound to prove to the Royal Bank Commissioner not later than at the end of the following month that the regular proportion has been restored.

Art. 19 (as amended 1919). Under special circumstances, modifications regarding the rules of cover for the notes may be granted for a period up to two years by royal proclamation provided that a special tax on the excess existing at the end of each month shall be paid to the Exchequer and commuted monthly at the rate of 5 per cent per annum.

Art. 21. Of the amount realised as profit in calling in circulating bank-notes, one-half to be paid to the Exchequer. If redemption of notes is eventually made after time of notice, Bank may obtain refund from Exchequer of half-amount required for the purpose.

GENERAL BUSINESS

Arts. 3 and 4. The main object of the Bank is to establish and maintain sound finances in the country, and through loans and discounts to improve the circulation of money for the facilitation of production, trade and exchange, and by receiving deposits to keep funds entrusted to it in safe custody so that those concerned can at any time exercise entire control.

Art. 22. The Bank carries on the following business in addition to the issue of notes :

1. Accepting of money on current and deposit account.
2. Accepting of deposits for safe custody.

3. Issue of bank promissory notes.
4. Purchase and sale of pure metal in coins or ingots.
5. Discounting of domestic bills of exchange.
6. Purchase and sale of foreign bills of exchange.
7. Deposit of money on interest-yielding accounts with correspondents and issuance of bills and cheques on domestic and foreign places.
8. Granting loans against security.
9. Purchase and sale of securities.

Art. 23. Interest on current accounts as well as on deposit accounts is fixed by the managers.

Art. 31. The Bank may issue bank promissory notes to persons mentioned by name, payable eight days after date of issue for amounts not less than 1000 kroner.

Art. 32. The Bank is bound to buy from anyone who may desire it pure gold ingots at the price of 2480 kroner per kilogram pure gold, less $\frac{1}{4}$ per cent seignorage. Assay expenses are for seller's account.

Art. 33. The rates of discount and interest as well as the conditions on which the Bank buys and sells foreign bills of exchange is fixed by the managers.

When they wish to make any change in the rates of interest or discount, the Minister of Finance must be notified, and has the right to participate in the negotiations without being entitled to a vote.

Art. 35. Loans on real estate are granted on conditions fixed by the managers.

Art. 36. Other loans are granted for periods of one to six months against such security as is considered safe for the full repayment of the loan at the time fixed, in case the Bank shall not be willing to renew it.

The managers shall decide what securities shall be acceptable as collateral, and what percentage of their value shall be granted as a loan.

RELATIONS WITH THE STATE

Art. 2. The Bank is a private company whose management shall be separated from the finances of the State. No order from the Government shall ever directly or indirectly interfere with the Bank's management, nor shall any encroachments on the means or money held by the Bank be permitted.

Royal Bank Commissioner

Art. 61. On behalf of the State supervision of the business of the bank shall be made by the Royal Bank Commissioner, whose duties are attached to one of the Ministers, according to the decision of the King.

He shall see that the Bank fulfils the duties imposed upon it regarding the State and the national finances, and particularly that the metallic reserve is kept in the prescribed proportion to the circulation.

Art. 62. The Royal Bank Commissioner shall take the chair at all meetings of the directors, without the right to vote, and shall have access to the meetings of the managers and to the Bank's books and documents. On the other hand, he shall not take any part in the daily administration of the Bank.

If he is of opinion that the managers are acting in violation of the Bank charter, he shall deliberate with the directors and, failing agreement with them, he shall be entitled to take the matter to the Supreme Court.

Art. 63. If the Bank wish to make representations to the King they shall do so through the Commissioner.

Art. 72. Beyond the taxes on note issue (see Articles 19, 21) and the preferential tax (see Article 70 in section on Profits and Reserve Fund) no taxes shall be levied on the capital of the Bank.

For consent of the Crown required for increase of capital see Art. 7, under Capital.

For State's share in profits see Article 70, under Profits and Reserve Fund.

For Government appointments see amendment to Arts. 41 and 49, under Management.

For change in rate of discount see Art. 33, under General Business.

RETURNS

Art. 69. Accounts for year when completed and audited shall be submitted to ordinary General Meeting in October. When approved they shall be published.

TERM OF CHARTER

Arts. 76-77. Charter expires 31st July 1938.

A bill regarding the arrangement of the note issue is to be submitted to the Riksdag before end of 1935.

Continuance of the Bank's privilege requires a two-thirds majority at the General Meeting.

✓ ENGLAND

BANK OF ENGLAND

CAPITAL

56 Geo. III. cap. 96. Amount of Bank Stock increased to £14,553,000.

MANAGEMENT

Under the charter of 1694 a Governor, Deputy-Governor and 24 Directors are to be appointed, of whom at least 13, including the Governor or Deputy-Governor, shall form a Court of Directors for managing the affairs of the Corporation. (A Court is held at least once a week.)

The election of Governor, Deputy-Governor and Directors takes place at General Courts. These are held at least twice yearly, and holders of Bank Stock of amount not less than £500 present at the meeting, may give one vote and no more. Term of office of Directors, including Governor and Deputy-Governor, one year. They are eligible for re-election. Members of Court must be natural-born or naturalised British subjects.

NOTE ISSUE

Bank Act of 1844

Clause

1. Bank of England to establish a separate Department for the issue of Notes, distinct from the Banking Department.
- 2 and 5. Securities in Issue Department serving as cover for notes may not exceed £14,000,000 (including the debt of the public to the Bank), plus an amount, as laid down by Order in Council on the application of the Bank, not exceeding two-thirds of the amount of bank-notes which bankers, subsequently ceasing to issue, were authorised to issue by the Act of 1844.¹

¹ For authority to issue bank-notes beyond limit see Currency and Bank Notes Act, 1914, Cl. 3 (Appendix II.).

Clause

3. Silver bullion in Issue Department not to exceed one-fourth of the gold coin and bullion so held. (The right to issue notes against silver has not been issued since 1861.)
4. The Bank to be under obligation to buy gold in exchange for notes at the rate of £3 : 17 : 9 per ounce standard.¹ Melting and assay charges to be for seller's account.
- 10, 13. No new bank in United Kingdom to issue notes (that is, no bank other than those already in 1844 authorised to issue notes). Bankers ceasing to issue notes may not resume: limitations are imposed on issues of then existing banks of issue.
27. Privileges of Bank to be continued subject to termination by twelve months' notice after 1st August 1855 and on repayment to Bank of £11,015,100, being debt of public to the Bank, and any other claims on State with arrears of interest.²

Gold Standard Act of 1925

- I. 1 (a) Bank of England not to be bound to pay its notes in gold coin, and notwithstanding notes to remain legal tender.

GENERAL BUSINESS

Extract from 5 & 6 W. & M. cap. 20, 1694.

XXVI. And to the intent that their Majesties' subjects may not be oppressed by the said Corporation . . . be it further declared . . . that the said Corporation . . . shall not at any time during the continuance thereof deal or trade, or permit or suffer any person or persons whatsoever, either in trust or for the benefit of the same, to deal or trade with any of the Stock, monies or effects of or anyways belonging to the said Corporation in the buying or selling of any goods, wares or merchandises whatsoever.

XXVII. Provided that nothing herein contained shall anyways be construed to hinder the said Corporation from dealing in

¹ For obligation on Bank of England with regard to sale of gold bullion see Clause I. (2) of Gold Standard Act, 1925 (Appendix II.).

² By the National Debt Act, 1870 (Act 33 & 34 Vict. c. 71, clause 72), it was laid down that "the Bank of England shall continue a corporation for the purposes of this Act until all stock is duly redeemed by Parliament".

bills of exchange, or in buying or selling bullion, gold or silver, or in selling any goods, wares or merchandise whatsoever which shall really and *bona fide* be left or deposited with the said Corporation for money lent and advanced thereon and which shall not be redeemed at the time agreed on or within three months after, or from selling such goods as shall or may be the produce of lands purchased by the said Corporation.

RELATIONS WITH THE STATE

59 Geo. III. cap. 76. The Bank may not make advances to Government without the express authority of Parliament. But nothing in the Act was to prevent the Bank from purchasing Exchequer bills, or Treasury bills or other Government securities which by law it was authorised to purchase.

An annual return has to be laid before Parliament of the amount of Exchequer bills, Treasury bills, etc., purchased by the Bank, or upon which any sums have been advanced for the public service.

Clause *Act of 1844*

7. Bank of England to be exempt from Stamp Duty on their notes.
- 8, 9. Bank to allow to the State £180,000, plus the net profits from any increase in the fiduciary issue above £14,000,000.

Bank Act of 1892

- 1, 3, 4. The Bank receives fixed remuneration for the management of the National Debt on its books.
5. Interest on public debt to Bank, then £11,015,100, to be at $2\frac{3}{4}$ per cent until 1903 and thereafter at $2\frac{1}{2}$ per cent.

War Loan Acts

Under various War Loan Acts (cp. War Loan Act, 1915) the remuneration for the management of more recently created debt is settled by agreement between the Treasury and the Bank.

RETURNS

Act of 1844

6. Accounts of Issue and Banking Departments to be published weekly in form prescribed.

ESTONIA

BANK OF ESTONIA

PURPOSE OF THE BANK.

Art. 2.¹ The first duty of the Bank is to ensure that the gold value of its notes remain stable. To this end it must exercise control, within the limits of its Statutes, over monetary circulation and credit.

CAPITAL

Art. 8. Capital, 5 million kronas in shares of 50 kronas each. [It is contemplated that in the first instance the capital will have to be taken up by the Government, which has undertaken to endeavour to dispose of its shares by public issue or otherwise when the Statutes have been in operation for two years. (League of Nations Publication, C. 227, M. 89, 1927—Banking and Currency Reform in Estonia.)]

Art. 9. The capital may be increased by the Board of Directors, subject to the approval of the Government, the issue price of the new shares also being determined by the Board of Directors with the approval of the Government.

PROFITS AND RESERVE FUND

Art. 50. The net profits to be divided as follows :

(1) Not less than 10 per cent to the Reserve Fund.

This appropriation may be suspended if the Reserve Fund equals or exceeds the paid-up capital (Art. 12).

(2) A dividend not exceeding 8 per cent.

(3) Of the remainder :

$\frac{1}{4}$ to the Reserve Fund.

$\frac{1}{4}$ to the Government or $\frac{3}{4}$ if payments to the Reserve Fund have been suspended.

$\frac{1}{4}$ to be available for additional dividend or other purposes at the discretion of the General Meeting.

¹ Numbers refer to Articles of Statutes, 1927.

BRANCHES

Art. 4. Branches and agencies may be established by the Bank anywhere in Estonia. The Government may require the establishment of Branches or Agencies in municipal towns.

MANAGEMENT

General Meeting of Shareholders

Art. 13. The ordinary meeting to be held annually in May.

Art. 14. Extraordinary general meetings may be convened by the Board of Directors, or at the request of shareholders representing at least one-quarter of the capital.

Art. 15. Every shareholder who has been registered for not less than six months and who owns at least 10 shares has the right to vote. Each share confers one vote, except that no shareholder is entitled to more than a thousand votes in his own name. As proxy he may cast further votes up to a thousand.

Art. 21. The business of the General Meeting includes the following :

- (a) Approval of Annual Report.
- (b) Appropriations to Reserve and other special funds.
- (c) Declaration of annual dividends.
- (d) Elections of members of Board of Directors and Auditors and the fixing of their fees.
- (e) Proposals to amend this Law to be submitted to Parliament through the Government, except those dealing with increase of capital (see Art. 9).

Board of Directors

Art. 25. The general conduct of the affairs of the Bank to be entrusted to a Board of Directors responsible to the General Meeting and consisting of the President, two members of the Management nominated by the President and seven other members elected for three years by the General Meeting and eligible for re-election.

The elected members to represent the following interests : Industry, Commerce, Agriculture, Co-operative and Organised Workers. The candidates are proposed through the Board of Directors by bodies representing these interests.

Art. 27. Each body to nominate two candidates from among the shareholders of the Bank.

Art. 26. The following are ineligible :

- (1) Officials of the Government, municipalities or other public bodies.
- (2) Members of Parliament.
- (3) Foreigners.

Art. 33. Office of elected Directors is honorary.

Art. 36. The Board of Directors is empowered to deal with the following :

- (a) Rates of discount and interest.
- (b) General conditions and dimensions of authorised classes of business.
- (c) Eligibility of parties for accommodation and fixing the limits of the same.
- (d) Acceptance and renewal of bills of exchange for discount or rediscount.
- (e) Continuance of advances for fixed periods and periodical review of advances on current account.
- (f) Appointment of Managers and the higher Bank employees, on proposal of the President, and the internal organisation.
- (g) Appointment of members of the Discount Committees and fixing their travelling expenses and fees.
- (h) Issue of instructions for the Clearing house conducted by the Bank.
- (i) Arrangements for the general supervision and control of the Bank's business.
- (j) Questions connected with the acquisition of immovable property.
- (k) Writing down the Bank's assets.
- (l) Appointment of foreign correspondents and fixing limit of funds to be held by them and of facilities to be granted them.
- (m) Questions concerning the form, text and denomination of the bank-notes, their supply and cancellation. The denomination and text to be fixed in agreement with Minister of Finance.
- (n) Questions regarding the liquidation of bankrupt enterprises and individuals indebted to the Bank.

- (o) Questions regarding the opening and closing of Branches and Agencies.
- (p) Approval of Bank's annual budget.
- (q) All matters to be laid before the General Meeting.

Board of Management

Art. 37. The Board of Management consists of the President, his deputy and of such number of managers as may be required.

The President to be appointed by the Government of the Republic for a period of 5 years, and is eligible for reappointment.

Managers appointed and dismissed by Board of Directors.

Art. 38. The Board of Management to control the daily operation of the Bank in conformity with the general instructions of the Board of Directors, and to meet at least once a week.

Art. 39. The Board of Management to report monthly to the Board of Directors regarding the transactions and position of the Bank.

Discount Committees

Art. 41. Appointed by the Board of Directors for the Head Offices and Branches carrying on independent loan operations. To consist of persons familiar with commercial, industrial and agricultural conditions of the locality.

Appointed for 2 years. Members are not eligible for re-appointment for the following year. Office honorary.

Art. 42. The Chairman of the Discount Committee at the Head Office to be Manager of the Discount Department; in branches, the Branch Manager.

The Board of Management is not bound to discount bills accepted by the Discount Committee. In exceptional cases bills rejected by the Discount Committee may be discounted if unanimously approved by the Board of Directors.

Auditors (see also Temporary Provisions, Art. 80)

Art. 43. Five qualified shareholders to be elected by the General Meeting as Auditors to examine and report on the Balance Sheet.

NOTE ISSUE

Art. 1. Exclusive privilege for 25 years. The Bank may ask for an extension of its note-issuing privilege not less than 3 years before the expiration of the existing privilege.

Art. 3. To ensure the convertibility of the Notes, the Bank, on the requisition of any person at the Head Office at Tallinn, shall be bound to sell to, or to purchase from, such person in exchange for legal tender currency of Estonia at the rates below, respectively, the legal tender currency of such foreign gold standard country or countries as may be notified in the *State Advertiser*, for immediate delivery in such foreign country or countries.

Provided that no person shall be entitled to demand or offer an amount of foreign currency of less value than 5000 kronas of legal tender money of Estonia.

For the purpose of determining the rate applicable to the $\frac{\text{sale}}{\text{purchase}}$ of foreign currency under this article, 2480 kronas shall be deemed to be equivalent to such sum in that foreign currency as is $\frac{\text{required to purchase}}{\text{realised by the sale of}}$ 1000 grammes of fine gold in that foreign country, at the rate of which the principal currency authority of that country is bound by law to $\frac{\text{sell}}{\text{purchase}}$ gold in exchange for currency, after $\frac{\text{deduction from}}{\text{addition to}}$ such sum of an amount, to be fixed by the Bank, representing the normal cost per 1000 grammes of transferring gold bullion in bulk from Tallinn to that foreign country, including interest and insurance that foreign country to Tallinn, on its value during transit.

On the date on which the provisions of this Law become operative, the Bank shall notify in the *State Advertiser* at least one foreign gold standard country for the purposes set forth in this Article. The Bank shall similarly notify any additions or changes of the foreign gold standard countries to which this Article is to apply. The Bank shall also from time to time determine the equivalent rates in accordance with the above provisions, and shall notify in the *State Advertiser* the rates so determined.

Art. 52 (1). Notes of a denomination less than 5 kronas may not be issued.

Art. 66. If the Bank should fail in its obligation under Art. 3, the privileges of note issue may be terminated by the Government.

RESERVE

Art. 58. Reserve of not less than 40 per cent to be maintained against notes in circulation and demand liabilities.

Art. 59. The reserve includes only :

- (a) Gold coin and bullion owned by the Bank either in the custody of the Bank or deposited in other Central Banks and earmarked for its account, or in any mint or in transit to or from the Bank.
- (b) Foreign exchange in the unrestricted ownership of the Bank and freely convertible on demand into exportable gold.

Foreign exchange includes :

- (1) Net balances standing to the credit of the Bank at the Central Note-issuing Bank or other bank of a foreign country.
- (2) Bills of exchange payable in foreign currency of a maturity not exceeding 3 months with at least two good signatures.
- (3) Treasury bills or similar obligations of a foreign Government not exceeding 6 months' maturity less any liabilities in such foreign exchange.

Art. 60. At the request of the Bank the Government may suspend the operations of Art. 58, subject to payment by the Bank of a progressive tax paid daily of the following percentages above the published minimum current discount rate for 3 months' bills :

- 1½ per cent if the Reserve is less than 40 per cent, but not less than 35 per cent.
- 2 per cent if the Reserve is less than 35 per cent, but not less than 30 per cent.
- 3 per cent if the Reserve is less than 30 per cent.

The suspension may be granted for not more than 30 days in the first instance and may be renewed for further periods not exceeding 15 days at a time.

Art. 61. Before applying for the suspension of Art. 58 the Board of Directors must raise the rates for discount and advances by not less than 1 per cent.

GENERAL BUSINESS

Art. 51. The Bank may :

- (1) Make and issue bank-notes.
- (2) Buy and sell gold and silver.
- (3) Accept money on deposit or current account.
- (4) Discount and negotiate internal bills of exchange and other paper arising out of *bona fide* commercial transactions, bearing 2 or more good signatures and having a maturity not exceeding 3 months, agricultural bills not exceeding 6 months and timber bills not exceeding 9 months, the two latter categories not to exceed in the aggregate 40 per cent of the total bill holding.
- (5) Buy and sell at home and abroad telegraphic transfers, cheques and bills of exchange, drafts and Treasury bills of maturities not exceeding 3 months, payable abroad in a currency stabilised on gold.
- (6) Open accounts abroad.
- (7) Open accounts for foreign banks.
- (8) Grant advances for fixed periods, not exceeding 6 months, and advances on current account against the following security, subject to the limitation of Art. 52 :
 - (a) Gold coin and bullion.
 - (b) Stocks, bonds and bills of, or guaranteed by, the Estonian Government up to 80 per cent of their current market value.
 - (c) Commercial paper in Estonian or stable foreign currencies with 2 or more good signatures of a maturity not exceeding 3 months.
 - (d) Agricultural and timber bills, as in (4) above, provided that the amount advanced on them does not exceed 40 per cent of the total advances.
 - (e) One name promissory notes secured by warehouse receipts against staple commodities fully insured having broad and active markets to an amount not exceeding 60 per cent of the market value.

The rate of interest on all advances, except that under 11 below, not to be less than $1\frac{1}{4}$ per cent above the current discount rate for 3 months' bills.

- (9) Accept the custody and management of moneys and articles of value.
- (10) Undertake on behalf of third parties the purchase and sale, collection and payment of securities, currencies and credit instruments at home and abroad.
- (11) Make temporary advances to the Government for expenditure authorised in the annual budget, provided that the whole of the advances outstanding at any time does not exceed one-sixth of the estimated revenue for the year and are repaid not later than the end of the quarter following the close of the fiscal year in which the advances were made. The rate of interest to be agreed between the Bank and the Government.
- (12) Invest an amount not exceeding the paid-up capital of the Bank in securities of, or guaranteed by, the Estonian Government, having a maturity not exceeding 5 years.
- (13) Do all such things as may be incidental to the transaction of its legitimate business.

Art. 52. The Bank may not :

- (1) Issue notes of a denomination less than 5 kronas.
- (2) Have a direct interest in any commercial, industrial or other undertaking.
- (3) Become the possessor of fixed property other than the business property of the Bank, except as provided in Art. 53.
- (4) Purchase its own shares on its own account.
- (5) Pay interest on deposit or current accounts, except on foreign balances held by the Government (see Art. 44 under Relations with the State).
- (6) Allow the renewal of maturing bills, discounted or rediscounted by the Bank, except in special circumstances, and after a resolution passed by the Board of Directors, in which case one renewal may be permitted for a period not exceeding 3 months.

- (7) Directly or indirectly make advances to the Government, except as provided in Art 51 (11).
- (8) Directly or indirectly make any advances to local authorities or other public bodies.
- (9) Make unsecured loans or advances.
- (10) Make advances against mortgages on fixed property, except as provided in Art. 53.
- (11) Make advances against agricultural produce, timber or merchandise, except as provided for in Art. 51 (8) (d) and (e).
- (12) Accept bills payable otherwise than on demand.
- (13) Discount or accept as security from one person, other than the Government, under Art. 51 (11), bills exceeding one-fifth of the paid-up capital of the Bank without a special resolution unanimously adopted by the Board, but excluding advances under Art. 51 (8) (a), (b) and (e), the limits of which will be fixed by the Board.

Art. 53. The Bank may accept a mortgage on the immovable property of a debtor as an additional security for a doubtful debt or if the value of the securities held against it has diminished. In such cases shares of good companies and private banks or other security approved by the Board of Directors may be accepted.

Advances for which such additional security has been given must be converted into fixed term loans if they are not so already and may not be renewed on maturity.

Real property acquired by the Bank under this article to be realised as speedily as possible, unless its retention is absolutely necessary for the business of the Bank.

Art. 55. The Head Office is authorised to issue sight drafts payable at Branches and Agencies or *vice versa*. If sanctioned by the Board of Directors one branch may issue sight drafts payable at another. No drafts drawn by the Bank on itself shall be made payable to bearer.

Art. 57. The minimum rate of discount or rediscount to be made public.

RELATIONS WITH THE STATE

For the position of the State before shares are disposed of see Transitory Provisions, Art. 76 *et seq.*

Art. 44. The Bank to keep the accounts of the State and State institutions. No interest to be paid, except that the Bank may pay on foreign balances, held for account of the State, interest at least 1 per cent below the average rate earned by the Bank on such balances. The Bank to act as Government cashier without remuneration. It is also entrusted with the issue and management of all internal State Debt.

Art. 45. The Minister of Finance may nominate a Government Commissioner with the right to attend all meetings of the Board of Directors but not to vote.

The Government Commissioner has the right to protest against any decision of the Board of Directors which he considers to be contrary to the laws. Any such objection has the force of a suspensive veto until the question has been decided by a commission of three persons, to report within seven days, consisting of one nominee of the Government, one nominee of the Board of Directors, and a chairman chosen by agreement between the Government and the Bank, or who, failing such agreement, shall be the Chief Justice.

Art. 46. Representatives of the Government may not have access to the books of the Bank, except that for the purposes of the preceding paragraph the Government Commissioner may require the Management to furnish any necessary evidence.

The Bank may not be subjected (for the duration of its privilege of note issue) to any special regulation of the Government other than provided in this Act.

Art. 68. The Bank is exempt from all taxes other than the tax provided in Art. 60 (see under Reserve).

For :

Government share in Profits see Art. 50, under Profits and Reserve Fund.

Temporary loans to the Government see Art. 51 (11) and 52 (7), General Business.

Government nomination of President of the Bank see Art. 37, under Management.

The agreement of the Government needed for :

Increase of capital and price of new issue (Art. 9), under Capital.

Suspension of reserve requirements (Art. 60), under Reserve.

Government powers with regard to establishment of branches see Art. 4, under Branches.

State and Liquidation see Art. 70, under Term of Charter and Liquidation.

RETURNS

Art. 48. A return of assets and liabilities on the 7th, 15th, 22nd and last day of each month to be published in prescribed form¹ within a week of these dates.

Art. 49. The annual balance sheet and profit and loss account to be published in the *State Advertiser* not later than one month before the annual meeting.

TERM OF CHARTER AND LIQUIDATION

Art. 1. Term of privilege, 25 years.

Art. 70. In the event of the expiration of the note-issuing privilege of the Bank or the loss of privilege (see Art. 66, under Note Issue) the Government, with the sanction of Parliament, may take over the whole of the Bank's business.

In this event the assets and liabilities shall be valued by three experts, one appointed by the Government, one by the Board of Directors and one mutually agreed upon.

The nominal value of the shares shall be paid to the Shareholders; three-quarters of any net excess of assets to be paid to the Government and one-quarter to the shareholders.

Art. 71. Should the State not take over the Bank's business, on decision of an Extraordinary General Meeting the Bank may be maintained for carrying on banking business exclusive of its note-issuing privilege.

TRANSITORY PROVISIONS

Art. 76. As long as the Government is owner of all shares of the Bank, the functions of the General Meeting shall be exercised by the Government, but not longer than 2 years after the Law comes into force.

Art. 78. The first managers appointed under Art. 37 to be subject to the approval of the Government.

Art. 79. As long as the Government owns all the shares persons who are not shareholders may be elected as Directors.

¹ See p. 69.

For the first three years the Board of Directors will be elected from candidates nominated as follows :

Three from nominees of the Chamber of Commerce and Industry.

One from nominees of the Estonian Central Agricultural Society.

One from nominees of the Settlers' League.

One from nominees of the Estonian Co-operative League.

One from representatives of the Workers, proposed by the Minister of Finance.

Each of the bodies mentioned, as well as the Minister of Finance, to nominate three times as many candidates as have to be elected members of the Board of Directors.

Art. 80. During the time the shares are wholly owned by the Government the function of auditors to be exercised by the State control.

Temporary Adviser

Art. 72. An adviser to the Bank nominated by the Council of the League of Nations to be appointed by the Government for three years.

Art. 74. He shall have the right to attend all meetings of the Management and Directors and the General Meetings in a consultative capacity, and to exercise a suspensive veto in the event of any decisions being in his opinion contrary to the law. No action shall be taken in such a case until agreement has been come to between the Adviser and the Board of Directors, or has been decided by a third party to be mutually agreed upon, or failing such agreement, by the Chief Justice.

Art. 75. Any alteration of this Law proposed at a General Meeting requires the specific approval of the Adviser.

FINLAND

BANK OF FINLAND

PURPOSE OF THE BANK

Art. 1.¹ The object of the Bank is to maintain stability and security in the monetary system of Finland, and to assist and facilitate the circulation of money.

¹ Numbers refer to Articles of Act of 1925.

CAPITAL

Art. 4. The funds of the Bank consist of its capital, to be increased to and maintained at 500 million marks, and the reserve fund as specified below, which may not include the real estate or furniture of the Bank, nor shares belonging to the Bank.

PROFITS AND RESERVE FUND

Art. 30. The annual profit of the Bank to be used in its entirety to increase the capital and reserve of the Bank until these equal severally 500 million marks.

Thereafter at least one-third of the annual profit shall be transferred to the reserve fund. Such part of the profit as is not utilised for increasing the funds of the bank may according to the decision of the Diet be employed for public purposes.

Any loss shall be covered by undisposed profits or, if these are insufficient, out of the reserve fund. If latter is reduced in this way, profits of next year shall be used in first instance to restore it to former amount.

BRANCHES

Art. 5. The Bank carries on its business at a Head Office and Branch Offices, as well as through agencies when necessary.

MANAGEMENT

Art. 15. The management and working of the Bank are supervised by the Bank Supervisors of the Diet in accordance with the prescribed regulations and the instructions issued by the Diet.

Art. 16. The management and working of the Bank are entrusted to the Board of Management, except for such duties as are reserved for the Bank Supervisors.

The Board of Management consists of a chairman and not more than four members, of whom one shall be versed in law.

The Board shall act in all its dealings in such a way that the currency shall maintain its value established by law.

Art. 17. The duties of the Bank Supervisors are :

- (1) to fix the discount rate, rates of interest and commissions ;
- (2) to decide the principles for balancing the books of the Bank ;

- (3) to decide as to granting clemency to the Bank's debtors, compounding debts and writing doubtful claims off the books ;
- (4) to deal with questions concerning the purchase, erection and disposal of Bank premises, and important questions connected with production of notes ;
- (5) to decide the taking up of foreign credit, and to fix the amount and terms ;
- (6) to decide as to the payment of interest in special cases (see Article 13, General Business) ;
- (7) to decide as to the appointment of correspondents abroad ;
- (8) to control the checking of the Bank's cash, documents and deposits ;
- (9) to inquire into the Bank's granting of credits and investments and foreign currency transactions ;
- (10) to decide on suggestions to the Government ;
- (11) to submit an annual report to the Bank Committee of the Diet ;
- (12) to distribute work between the members of the Board of Management ;
- (13) to decide as to the discharge from responsibility of the Board of Managers on the report of the Auditors ;
- (14) to decide as to the opening of branches and by agreement with the Government on closing the same ;
- (15) to decide as to the opening and closing, duties and management of Agencies ;
- (16) to appoint managers for branch offices ;
- (17) to appoint discount controllers ;
- (18) to decide questions of salary of the Managers and officials ;
- (19) to decide questions relating to disciplinary measures.

Members of the Board of Management shall be present at meeting of Supervisors with right to express their opinion.

Art. 18. Branch offices are managed by a manager. All questions concerning credits to be dealt with by a discount committee consisting of the manager as chairman and two controllers, appointed for one year.

Art. 23. The chairman and members of the Board of Management are appointed by the President of the Republic. When such a post falls vacant, the Bank Supervisors shall propose to Government the appointment of a suitable person.

Art. 27. An audit shall be carried out annually by auditors elected according to the Diet Act with the observance of the instructions drawn up for them by the Diet.

NOTE ISSUE AND RESERVE

Art. 3. The Bank has the sole right of issue.

Art. 6. The notes in circulation may not be more than 1200 million marks in excess of the aggregate gold reserve and the undisputed balance with foreign correspondents.

The excess shall be covered by :

- bills payable abroad in foreign currency ;
- foreign bonds quoted on foreign Stock Exchanges ;
- interest coupons in foreign currency which have fallen due for payment ;
- foreign bank-notes ;
- inland bills falling due not later than within three months for which at least two trustworthy firms or persons are responsible.

The assets of the Bank in foreign currency and bonds may not be reckoned at more than the rates of exchange quoted on foreign money markets and Stock Exchanges, converted into Finnish marks at gold parity, but bonds must not be reckoned at more than their nominal value.

The drafts of the Bank in Finnish currency and other liabilities payable on demand, as well as undrawn balances of advances on cash credit and overdrafts, shall be considered as notes in circulation.

Art. 7. The gold reserve consists of gold coin and bullion, either in Helsingfors or in course of transport for the account of the Bank. The gold reserve not to fall below 300 million marks.

Art. 8. The Bank must redeem its notes on demand at its own option either in :

- Finnish gold coin.
- Gold ingots.
- Cheques made out in foreign currency payable at sight at

the current rate of exchange, but not exceeding parity by more than 1 per cent.

(Monetary Law, 1925.—Art. 12. The notes of the Bank are legal tender.)

GENERAL BUSINESS

Art. 11. The Bank is entitled:

- (1) to carry on the exchange of money;
- (2) to buy and sell gold coin and bullion;
- (3) to buy and sell foreign currency;
- (4) to discount bills;
- (5) to grant other credit than that on bills, provided that such credit shall only be granted against gold, bonds or mortgages, and that the aggregate amount shall not exceed one-half of the Bank's own assets;
- (6) to carry on other business appropriate to ordinary banking operations.

Art. 12. The assets of the Bank may be invested in shares only to such extent as is necessary for supplying the requisites for note production and the printing of notes.

Art. 13. The Bank is entitled to pay interest on the balances on current account of its foreign correspondents.

Interest may not be paid on other deposits except in special circumstances.

(Monetary Law.—Art. 10. The Bank is bound to buy gold brought to it for coining, charging $\frac{1}{3}$ per cent for cost.)

RELATIONS WITH THE STATE

Art. 2. The Bank carries on its business under the guarantee and supervision of the Diet.

For the duties of Bank Supervisors of the Diet see Article 17, under Management.

For appointments by the State see Articles 23 and 27, under Management.

State share of profits see under Profits and Reserve Fund, Article 30.

The capital of the Bank is owned by the State.

RETURNS

Art. 26. The closing of the books is carried out at the end of each calendar year.

A balance sheet shall be published four times a month in the official *Gazettes*.

An annual report shall be submitted by 15th February, and shall be printed and published.

FRANCE †

BANK OF FRANCE ¹

CAPITAL

L. 9th June 1857, 2. Fcs. 182,500,000 in shares of Fcs. 1000 registered.

RESERVE FUNDS

In the course of development reserve funds have been built up in various ways, of which the following may be noted :

- L. 17th Nov. 1897, 12. (1) Of the profits arising from raising discount rate above 5 per cent one-quarter is credited to the Reserve Fund (the balance is paid to the State);
- (2) All profits arising from raising the rate above 6 per cent.
- (3) Reserve accumulated from past profits fixed by law of 17th May 1834 at Fcs. 10,000,000.
- L. 9th June 1857, 8. (4) Special funds arising out of amalgamation with Departmental Banks and increase of Bank of France's capital in 1857.
- (5) Real estate surplus.
- (6) Special reserve.

Royal Ordinance, 29th March 1841. A sum representing more than half of Bank's capital in legal reserve must be invested in French Rentes.

BRANCHES

L. 16th Jan. 1808, 10. The Bank is empowered to establish branches throughout the country.

¹ The particulars regarding the Bank of France are derived from the volume entitled *Lois et statuts qui régissent la Banque de France, Notenbanken der Welt* (Dierschke and Müller) and *Interviews on the Banking and Currency Systems of England, Scotland, etc.*, Washington Government Printing Office, 1910. (In the marginal references L. followed by a date and a number refers to a law of the date given, the number indicating the section. I. followed by a number refers to the page in the volume of Interviews.)

MANAGEMENT

Governor and two Deputy-Governors appointed by President L. 22nd A on proposal of Finance Minister. No specified term of office is 1806, 10- laid down. The Governor directs all the Bank's business, and 19. the importance of his position is emphasised by the law.

The above officials may not be members of Parliament. L. 17th N 1897, 3.

General Council consist of Governor and Deputy-Governors, Statutes, 1 together with fifteen Regents and three Auditors (Censeurs) Jan. 1806, elected by the General Assembly.

Three of the Regents must be chosen from the Treasury L. 22nd A disbursing agents, five of the Regents and the three Auditors 1806, 8. from the commercial and industrial members among stock- Dierschke holders, and one Regent from the agricultural members. Müller, i. p. 151.

Term of office of Regents, 5 years. L. 14th A

Term of office of Auditors, 3 years. Regents and Auditors 1803, 16, are eligible for re-election.

The General Council are responsible for the administration of Statutes. Bank and the conduct of business. Jan. 1806 35-40.

Discount Council consists of 12 shareholders, elected by the L. 14th A Auditors, and acting in advisory capacity. 1803, 18.

General Assembly consists of the 200 largest shareholders, L. 14th A but only French citizens are eligible for membership. Meets 1803, 11- regularly once a year at the end of January, but may be summoned specially. Each member has one vote.

Main duties :

- (1) To elect Regents and Censors.
- (2) To receive annual report of General Council.
- (3) To receive Censors' report on balance sheet.

NOTE ISSUE

Bank has monopoly of note issue.

Denomination of notes fixed by law. (Cf. Law of 29th December 1871, authorising 10 and 5 franc notes.)

Maximum note issue is fixed and altered from time to time in accordance with needs of trade.

Figure raised by law of 22nd July 1926 to Fcs. 58,500 million.¹

¹ By law of 7th August 1926 notes issued by the Bank against purchases of gold or gold exchange are not included in this amount.

RESERVE

No regulation requiring any prescribed gold proportion.

l. 214.

Notes are issued against cash or discounts and loans.

GENERAL BUSINESS

l. 14th Apr.

1803, 5.

Statutes, 16th

Jan. 1808, 9-

10.

Décret, 26th

March 1848.

Décret, 13th

Jan. 1869.

l. 17th Nov.

1897, 2.

l. 30th Apr.

1896, 2.

Convention,

11th Nov.

911.

1. Discounts, for those having accounts with discount facilities, internal bills, commercial and agricultural warrants, and bills to order with currency not exceeding 3 months.

Three signatures are ordinarily required except in cases of warrants, and in case of bills if approved collateral is given, when two suffice.

2. Discounts bills payable abroad for the promotion of French export trade, centred in France. Conditions as to signatures and maturity as in 1.

3. Receives for customers short term bills for collection.

4. Receives without interest money on current or deposit account.

5. Makes payments to order of customers against balances in hand.

6. Makes advances against deposit of French Government, colonial, municipal and other specified securities for 90 days, period being open to extension.

7. Deals in gold bar¹ or foreign gold coin and makes loans against them.

8. Undertakes safe custody of securities, etc.

9. Negotiates sales of French and foreign securities for customers.

10. Issues letters of credit and circular cheques.

11. Pays or discounts coupons of French Government securities.

12. Acts as bankers to Government and issues Treasury bills and rentes for Government without charge.

13. Maintains various forms of accounts, e.g. discount accounts, advance accounts, deposit accounts.

l. 16th Jan.

1808, 17.

With the approval of the Government the Bank may acquire real estate required for its own business.

¹ It was the practice of the Bank of France to buy gold at the Mint tariff, but it was not obliged by law to do so. I. p. 218.

RELATIONS WITH THE STATE

1. On occasions of the extension of its privilege and on other occasions the Bank has entered into arrangements with the Government, approved by law, by which it has made large advances to the State, either free of interest or at beneficial rates of interest.

The maximum amount authorised for these advances is, since 1st September 1927, Fcs. 32,000 million.

2. The Bank is liable to the ordinary taxes.

I. 203.

3. In return for the privilege of note issue the Bank makes various payments to the State, of which the following are noteworthy :

- (a) Prescribed royalties calculated with reference to the rate of discount and the productive circulation. Conventio
26th Oct.
1917.
The productive circulation consists of notes issued in respect of discounts, advances against securities or precious metals and drafts to order.
- (b) Three-quarters share of profits resulting from discount rate above 5 per cent. L. of 17th
Nov. 1897
12.
- (c) If dividend exceeds Fcs. 240 per share in any year, equivalent of excess is payable to State. Conventio
26th July
1918.

II. Under the Convention of 26th October 1917 the Bank pays the State certain special sums receivable by way of discounting French Treasury bonds for foreign Governments and by way of interest on advances to the State. These sums are applied to the Sinking Fund.

For Appointments by the State see under Management, paragraph 1.

RETURNS AND AUDIT

Bank under obligation to publish a quarterly return, but it actually publishes a weekly return. I. 206.

There is no regular system of examination by State, but Minister of Finance has right to ask for information whenever he chooses.

TERM OF CHARTER

Till 31st December 1945.

L. 20th I.
1918, Art.

GERMANY -

THE REICHSBANK

PURPOSE OF BANK

1.¹ The Reichsbank is a Bank independent of Government control, and having the character of a corporate body whose task is to regulate the circulation of money in the whole area of the Reich, to facilitate the clearance of payments and to provide for the utilisation of available capital.

CAPITAL

5. Capital may be raised to Reichsmark 400 million, but not to be less than R.M. 300 million.

Each share to be for 100 R.M.—certificates to be issued in shareholders' names.

11. Each share gives one vote, but no one to have more than 300 votes.²

PROFITS AND RESERVE FUND

37. Twenty per cent of net profits to be carried to reserve so long as reserve is less than 12 per cent of notes in circulation, computed on average of preceding six months.

Then 8 per cent to shareholders—of balance, 50 per cent of first R.M. 50 million to Reich and 50 per cent to shareholders, 75 per cent of next R.M. 50 million to Reich and 25 per cent to shareholders; of remainder, 90 per cent to Reich and 10 per cent to shareholders. (Amounts assigned to shareholders are available either for dividend or dividend equalisation reserve.)

If dividend in any year is less than 8 per cent, deficiency is to be first charge on net profit of following years after deduction of amount legally required for reserve, unless deficiency is made up out of existing dividend reserve.

Any premia on new issue of shares to be placed to reserve.

BRANCHES

Branches may be established throughout the Reich.

¹ References are to the Bank Law, 1924, as amended 1926.

² In the Statutes of the Bank it is provided that "not more than one shareholder shall be represented by the same proxy".

MANAGEMENT

Managing Board

6. Managing Board to administer Bank and to direct currency, discount and credit policy.

President and members must be Germans.

President to be elected by General Council, election requiring majority of nine votes at least, including six votes of German nationals. The appointment has to be countersigned by the Reichspresident. If he refuses to sign, another election takes place. If he again refuses, a third election is held. In this event deed of appointment of the President of Bank is valid without countersignature of the Reichspresident.

The members of the Board (number unspecified) having been approved by General Council (the same majority being required as for President) are appointed by the President—terms of appointment 12 years, but retirement at 65.

President holds office for 4 years.

President and members are eligible for reappointment.

On important grounds President or member of Managing Board may be dismissed—former by General Council, subject to majority vote as above, and latter under same condition, but not without President's consent.

General Council

14-15. The General Council is composed of 14 members, seven German and seven foreign.¹ It has power by a unanimous vote to increase number of German members. The President of the Bank is one of the German members, and is Chairman of the General Council.

Term of office of members of Council, three years, with exception of President and Commissioner. (See Nos. 6 and 19.)

16. German members, with exception of President, are elected by such shareholders as are Germans. When a foreign member vacates office, a person of same nationality is to be elected in his place by foreign members, unanimity save for one vote being required. The Central Bank of the country whose

¹ The seven foreign representatives are British, French, Italian, Belgian, American, Dutch and Swiss, one in each case.

national is to be elected is to be asked for an expression of opinion.

17. Following classes are ineligible for General Council :

- (a) Officials of Reich or any German State.
- (b) Persons who receive any payment from Reich or a German State.

Corresponding provisions apply to foreign members.

18. Resolutions of General Council require majority of at least ten votes, but simple majority is sufficient if it includes President and Commissioner (see No. 19).

At each meeting, at least once monthly, General Council shall examine reports and decide on proposals submitted by President and Commissioner.

19. General Council shall appoint one of its foreign members or a national of one of the countries represented on it as Commissioner for the issue of notes. Resolution appointing him requires at least nine votes, including at least six foreign votes. The election of a person not a member of the Council causes the retirement of the national of the same State, as the Commissioner becomes a member in his place. The Commissioner may be present at meetings of Managing Board. Term of office, four years.

20. In order to maintain permanent contact as to currency matters and financial policy, Reichsbank Managing Board is obliged to report at regular intervals to the Government or at any time on the request of the Government in regard to these matters.

General Meeting of Shareholders

11. The general meeting represents the shareholders. (According to Statutes it must be held at least once a year, not later than May.)

12. A report on administration is printed annually. General meeting decides as to balance sheet and distribution of profits according to law.

Central Committee of Shareholders

13. Central Committee of Shareholders shall be formed, whose advice Managing Board may obtain if desired. Members to be elected by General Meeting on proposal of Managing

Board from German shareholders representing banking, agriculture, commerce, industry, manual trade and labour.¹

NOTE ISSUE

2. Reichsbank has exclusive right to issue bank-notes in Germany for fifty years, subject to existing rights of issue in cases of Bayerische Notenbank, Württembergische Notenbank, Sächsische Bank and Badische Bank remaining unaffected. Maximum issue of above four banks may not in aggregate exceed RM. 194 million.

3. Bank-notes of less than RM. 10 may only be issued with consent of Government for purpose of satisfying transitory trade need.

Bank-notes of Reichsbank, in addition to German gold coin, are legal tender for unlimited amount.

27. Commissioner (see under Management) to control note issue. Daily statistics of notes and cover to be submitted to him.

31. Notes payable (a) at head office, Berlin, on presentation, and (b) at branches so far as cash allows.

Payment to be *at Bank's option* in German gold coin, gold bar or gold exchange,² in which case bank may charge a commission not exceeding the charges of transporting gold in bulk from Germany to the foreign exchange centre concerned, including interest.

RESERVE

28. Cover to be 40 per cent gold or "devisen",³ of which not less than three-quarters shall be gold.⁴

Balance to be discounts or cheques complying with conditions in 21.

¹ The Statutes lay down that the Committee shall consist of 21 members and 21 substitutes. They must all be Germans and must hold at least 30 shares and 12 must be domiciled in Berlin or neighbourhood.

² *i.e.* cheques or orders to pay in foreign currency equivalent in value to the market value of the currency concerned as expressed in gold.

³ "Devisen" are defined as bank-notes, or bills of exchange having not more than 14 days to run, cheques and claims due from day to day payable in foreign currency by a bank of known solvency in foreign financial centres.

⁴ Gold—bar gold, or German or foreign coin (RM. 1392 per 1 lb. fine)—either held by Reichsbank or earmarked for it at foreign Central Banks.

29. By resolution of General Council, requiring unanimity except as to one vote, the cover (under 28) may be reduced. In that case, if reduction extends over more than one Bank return week, there is imposed a note tax on deficiency which,

if ratio is 37-40 per cent, is 3 per cent per annum.

„ 35-37 per cent, is 5 per cent per annum.

„ 33½-35 per cent, is 8 per cent per annum.

If ratio is less than 33½ per cent, 8 per cent plus 1 per cent for each 1 per cent by which gold cover is below 33½ per cent.

Minimum bank rate in deficiency period, 5 per cent, and whenever tax payable, discount rate to be raised by at least one-third of tax payable.

35. In addition to note cover under 28, not less than 40 per cent of Bank's deposit liabilities (excluding amount at credit of Reparations Commission) are to be at all times represented by demand deposits in Germany or abroad, cheques on other banks, bills not exceeding 30 days' currency or loans payable from day to day.

GENERAL BUSINESS

21. The Reichsbank may :

1. Buy and sell gold, silver and "devisen".
2. Discount, buy and sell (a) bills of exchange relating to *bona fide* commercial transactions or goods with currency not exceeding three months, carrying three good signatures, and (b) cheques with three good signatures. Third signature may be dispensed with when special security is provided by collateral or otherwise, subject to total of bills in this class not exceeding 33 per cent of portfolio of discounted bills.
- 2A. Discount, buy and sell Treasury Bills issued by Reich, with a currency of not more than three months, and in respect of which another obligee of known solvency besides the Reich is responsible.

The holdings of such Treasury Bills of the Reich acquired in accordance with this stipulation either by way of discount or purchase, and of such Bills taken as collateral under 3 (g), must in all not exceed 400 millions at any given time. The amount

is to be shown in the weekly returns (see 36, Returns), and is not to be considered as cover for notes within the meaning of 28 (see Notes).

3. Make loans at interest for period not exceeding three months on security of movable property, *i.e.* :

- (a) gold or silver ;
- (b) fully paid shares or preference shares of German Railway Companies, debentures of German land credit banks under State supervision or of German mortgage banking companies (amount lent on such debentures not to exceed 75 per cent of market value). (Following securities are also available in same way : bearer bonds of German public Land Credit Institutes, and of previously mentioned concerns issued against loans granted to a German Communal Corporation or in consideration of a guarantee by such Corporation) ;
- (c) on security of bearer bonds (maturing within one year) of Reich, a German State or Municipality, or bonds guaranteed by Reich or a German State—but such loans only to be to Banks of known solvency and up to three-quarters of market value of securities ;
- (d) on security of interest-bearing bonds to bearer of foreign States or foreign railway debentures guaranteed by a foreign State up to not more than 50 per cent market value ;
- (e) on security of bills of exchange of which obligees are of recognised solvency, subject to deduction of at least 5 per cent of market value ;
- (f) on security of merchandise stored in Germany, subject to two-thirds limit of value ;
- (g) on the security of Treasury Bills issued by the Reich, with a currency of not more than three months, subject to a deduction of at least 5 per cent of their market value and within the limits fixed by 2A above.

Bank has power, if specially authorised by General Council, to accept bonds of Reich maturing at a

distant date as security for loans repayable within three months if, apart from the pledging of the securities, two obligees are liable for the loans (one to be a bank carrying on business in Germany). Loans against bonds of Reich of distant maturity must not exceed paid-up capital of Reichsbank and reserves.

4. Buy and sell bonds of type set forth in 3 (c), so far as may be necessary for maintenance of business relations with customers.
 5. Act as collecting and paying agency for customers.
 6. Buy investments or precious metals for account of others after having in advance received cover, and sell same after previous delivery to Bank.
 7. Receive money free of interest on deposit or current account.
 8. Take custody of articles of value.
22. The Reichsbank is bound to receive bar gold in exchange for its notes at the fixed rate of RM. 1392 for one pound fine.
23. Managing Board to publish rate for discounts and advances.
24. Subject to 21, 3 (b), Bank may not accept bills, grant loans on security of land or mines, oilfields or shares except by way of collateral, and it may not buy or sell land, shares or goods except so far as necessary for carrying on business of Bank or for realisation of existing assets.

RELATIONS WITH THE STATE

25. (a) Reichsbank to undertake receipts and payments and internal remittances for Reich.
- (b) Without prejudice to (d) Bank is allowed to give credit to Government up to three months and not exceeding RM. 100 million. At the end of business year Government must not be indebted to Bank in any way.
- (c) Reich will entrust Bank with general banking business. Freedom is reserved to Reich as regards channels for issue of loans, but they are to be placed mainly through Reichsbank.
- (d) Credits also allowed to Reich Post and Railway Services up to aggregate of RM. 200 millions.
- (e) Bank to make no charge for acting as State Banker and

managing debt. Government to pay interest on advances, but Bank is authorised to arrange special terms. Except as laid down, Bank shall not grant any credits, directly or indirectly, to Reich, States, Communes or foreign countries.

26. Special account to be kept for Reparations payments.

45. Bank to be free of all corporation taxes, income taxes and trade taxes within the Reich.

For State Share in Profits see Art. 37, under Profits and Reserve Fund.

For Reichspresident and election of President see Art. 6, under Management.

For State and Liquidation see 38 under Liquidation.

RETURNS

36. Bank to publish weekly statements of assets and liabilities in prescribed form.

Bank also to publish in *Official Gazette* annual profit and loss account and balance sheet.¹

TERM OF CHARTER AND LIQUIDATION

2. Term of privilege, 50 years from 1924.

38. After lapse of note-issuing privilege, Government is entitled, subject to one year's notice, to dissolve Bank and take over premises on conditions prescribed.

Before going into liquidation, Bank shall give Government notice in good time.

GREECE

BANK OF GREECE

PURPOSE OF THE BANK

Art. 4.² The first duty of the Bank shall be to ensure that the gold value of its notes remains stable. To this end it shall

¹ Statutes provide that balance sheet is to be made up as for 31st December each year. Stock Exchange securities not to be taken at market value higher than as on that date. Only expenses of any year that may be distributed are those arising from the cost of production of notes.

² Numbers refer to Articles of the Draft Statutes of the Bank of Greece as prepared by the Financial Committee of the League of Nations, September 1927.

exercise control within the limits of its statutes over currency and credit in Greece.

CAPITAL

Art. 8. Capital—400 million drachmas in 80,000 shares of 5000 drachmas fully paid.

The State and State undertakings shall not directly or indirectly hold shares amounting to more than one-tenth of the nominal issued capital.

Art. 9. The capital may be increased by the Board of Directors, subject to the approval of the Government.

By Art. 2 of the draft agreement between the Hellenic Government and the National Bank of Greece the National Bank undertakes to subscribe the whole of the capital of the Bank of Greece by the transfer of such bills, advances and other liquid assets as may be agreed, and to offer the whole of it at par for public subscription at specified dates covering a period of two years and two months from the date on which the Bank of Greece commences business. A preferential right of subscription to one-half of each issue shall be reserved to shareholders of the National Bank of Greece.

PROFITS AND RESERVE FUND

Arts. 10 and 71. After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and super-annuation funds, and such contingencies as are usually provided for by bankers, and after payment of a cumulative dividend of 8 per cent per annum on the capital, one-half of the surplus to be allocated to the General Reserve Fund until it equals the capital, and the remaining half to the Government.

Appropriations to the General Reserve Fund may be suspended whenever it amounts to or exceeds the paid-up capital of the Bank. Thereafter one quarter of the surplus, or 4 per cent on the capital, whichever is less, to be paid to the shareholders, and the balance to the Government. Special reserve funds may be created.

BRANCHES

Art. 6. The Bank may establish branches or agencies or appoint agents anywhere in Greece, and may open agencies or

appoint agents abroad in any of the notified gold-standard countries referred to in Art. 5 (see under Note Issue).

MANAGEMENT

General Meeting of Shareholders

Art. 11. The General Meeting of shareholders is the supreme authority of the Bank and represents the whole body of shareholders.

Art. 12. An annual General Meeting to be held not later than April.

Extraordinary General Meetings may be convened as often as may be required by the Board of Directors and must be called upon request of duly qualified shareholders representing at least one-quarter of the share capital.

Art. 13. Five shares confer one vote. No one shareholder is entitled to more than 50 votes in his own name. As proxy he may have the right to cast further votes not exceeding 50.

Art. 14. Voting is limited to Greek subjects.

Bankrupts, persons who have not fulfilled their obligations to the Bank, or who are under civil or political disabilities as the result of a conviction for a criminal offence, may not vote.

Art. 19. The General Meeting shall alone be competent to deal with the following :

- (a) Approval of the annual report.
- (b) Approval of the balance sheet upon the report of the Auditors.
- (c) Appropriations to reserve and other special funds ; the declaration of dividends and other disposal of profits.
- (d) The election and removal of members of the Board of Directors and of Auditors.
- (e) The discharge from all personal responsibility of members of the Board of Directors and of Auditors.
- (f) Proposal to amend these statutes, except in regard to increase of capital (Art. 9) ; such proposals to be submitted to Parliament through the Government.

Board of Directors

Art. 20. The general conduct of the affairs of the Bank to be entrusted to a Board of Directors responsible to the General

Meeting and entitled to exercise all powers within the limits of the statutes which are not specially reserved to the General Meeting.

Art. 21. The Board to consist of the Governor, Deputy-Governor and nine Directors. At least three of the Directors to be actively engaged in industrial or commercial matters, and three experienced in agriculture. The Directors to be elected by the General Meeting for three years. The first Board to be appointed by the Government in agreement with the National Bank of Greece.

Directors are eligible for re-election.

Art. 22. All shareholders of the Bank are eligible as Directors excepting :

- (a) Members of the Government or officials of the Government, State Institutions and Undertakings.
- (b) Members of Parliament.
- (c) Directors, officers or employees of other Banks.
- (d) Any person whose status comes within Art. 14 (see above).

The Governor and Deputy-Governor shall take oath of fidelity before the President of the Republic, and the Directors shall similarly take oath before the Governor.

Art. 24. If the Governor, Deputy-Governor or a Director be guilty of a breach of these Statutes, divulge secrets regarding the Bank's affairs or abuse his position for private or business purposes, a General Meeting of shareholders shall have the right to remove him from office.

Art. 25. Office of Directors shall be honorary. Fees and travelling expenses to be sanctioned by General Meeting.

Art. 27. The following are reserved to the decision of the Board of Directors.

- (a) Rates of discount and interest.
- (b) General conditions of authorised classes of business.
- (c) Eligibility of applicants for accommodation and the sanctioning of credit limits proposed by the Governor.
- (d) Renewal of bills and advances and the periodical review, not less than once every three months, of all credits.

- (e) The discount of bills as in Art. 43 (see under Discount Committees).
- (f) The appointment of Managers and of members of the Discount Committees and the general internal organisation of the Bank.
- (g) Regulations for the clearing house.
- (h) Questions connected with the sale and purchase of immovable property.
- (i) Writing down of the Bank's assets.
- (k) The appointment of foreign correspondents and questions connected with transactions with them.
- (l) Questions concerning the supply, denominations and production of bank-notes and their cancellation. The design, text and denominations to be fixed in agreement with the Minister of Finance.
- (m) The opening and closing of branches and agencies.
- (n) The approval of the annual report and balance sheet to be submitted to the Annual General Meeting and certain other specified matters.

Art. 28. If a decision on any of the above matters becomes urgent it may be taken by an Executive Committee consisting of the Governor, Deputy-Governor and two other members of the Board, to be submitted to the next meeting of the Board.

Governor

Art. 29. The Governor and Deputy-Governor to be elected by the General Meeting for a period of five years and to be eligible for re-election. Their salary to be determined by the Board of Directors, but they may not be remunerated by any form of commission or share in profits.

The election of the Governor must receive the approval of the Government.

The first Governor and Deputy-Governor to be appointed irrevocably for a period of five years by the Government in agreement with the National Bank of Greece.

Art. 31. The Governor to be in permanent control of the administration taking decisions in all matters not reserved to the Board of Directors.

Art. 35. The Governor and Deputy-Governor may not engage

in any business on their own account. No bills signed by them shall be discounted or accepted as security by the Bank.

Discount Committees

Art. 40. Discount Committees to be created for the purpose of scrutinising all bills presented for discount or as security for advances.

Art. 41. They shall be appointed by the Board of Directors for the Head Office and branches authorised to carry on independent discount operations, and the members shall be familiar with the commercial, industrial and agricultural conditions in the areas concerned.

Art. 43. The Bank shall not be bound to discount bills accepted as suitable by the Discount Committee. Bills rejected by the Discount Committee may none the less be discounted provided they are approved by a three-quarter majority of the Board of Directors.

Auditors

Art. 44. Three Auditors and two substitutes to be elected at each Annual General Meeting to examine and report upon the balance sheet to be presented at the next General Meeting.

NOTE ISSUE

Art. 2. The Bank to have the exclusive right of note issue.

Art. 65. On and from the date upon which the Bank of Greece commences business, the National Bank of Greece shall cease to issue any kind of paper money.

Art. 66. The bank-notes of the Bank of Greece to be legal tender.

Art. 69. The Bank shall exchange its notes at all its offices for notes of other denominations or subsidiary coin.

Art. 5. To ensure the convertibility of its notes the Bank is bound on demand at its Head Office to sell or purchase for immediate delivery, in exchange for the legal tender currency of Greece, the legal tender currency of such gold standard countries (*i.e.* those whose currency is convertible into exportable gold) as may be notified in the official *Gazette*.

For the $\frac{\text{sale}}{\text{purchase}}$ of foreign currency the amount in drachmas,

which represent 1000 grammes of fine gold in accordance with the stabilisation rate, shall be deemed equivalent to such sum in that foreign currency as is $\frac{\text{required to purchase}}{\text{realised by the sale of}}$ 1000 grammes of fine gold in that country, at the rate at which the principal currency authority is legally bound to $\frac{\text{sell}}{\text{purchase}}$ gold for currency after $\frac{\text{deduction from}}{\text{addition to}}$ such sum of the normal cost of transport of gold in bulk, including interest and insurance, $\frac{\text{from Athens to the}}{\text{from the country}}$ country concerned concerned to Athens.

On the coming into force of the law the Bank to notify at least one foreign country for the purpose of this article.

The amount of foreign currency demanded or offered not to be less value than 10,000 drachmas of legal tender currency.

RESERVE

Art. 61. The Bank to maintain a Reserve of not less than 40 per cent of the notes in circulation and other demand liabilities.

Art. 62. The Reserve to include only :

- (a) Gold coin and bullion in the unrestricted ownership of the Bank, and either in the custody of the Bank or deposited in another Central Bank, or in any Mint, or in transit ;
- (b) Net foreign gold exchange in the unrestricted ownership of the Bank, provided that it be either :
 - (i.) on a country the currency of which is convertible on demand at a fixed price into exportable gold, or
 - (ii.) on a country the currency of which is convertible on demand at a fixed price into foreign exchange as defined in (i.).

“ Net foreign gold exchange ” shall be taken to mean :

- (1) Balances standing to the credit of the Bank at the Central Bank of a foreign country.

- (2) Bills of exchange payable in a foreign currency maturing within three months and bearing at least two good signatures.
- (3) Treasury bills or similar obligations of a foreign Government maturing within three months :
Less any liabilities in foreign exchange.

If the liabilities in foreign exchange exceed the assets as enumerated above, the excess shall be deducted from the other assets of the Reserve.

Art. 63. At the request of the Bank, the Government may suspend the operation of Art. 61, subject to the payment by the Bank to the Government of a tax.

Suspension may be granted for a period not exceeding 30 days in the first instance and may be renewed for further periods not exceeding 15 days at a time.

The tax to be calculated on the excess by which the note circulation and other demand liabilities exceed the maximum admissible under Art. 61 at the following rates :

1½ per cent per annum above the published minimum current discount rate of the Bank for three months bills, if the Reserve is less than 40 per cent and not less than 35 per cent.

2 per cent per annum above the minimum discount rate, if the Reserve is less than 35 per cent and not less than 30 per cent.

3 per cent above the minimum discount rate, if the Reserve is less than 30 per cent.

Art. 64. Before applying to the Government for the suspension of Art. 61 the Board of Directors to raise the discount rate by not less than 1 per cent per annum.

By Art. 3 of the draft agreement between the Hellenic Government and the National Bank of Greece, the latter on the date of the commencement of business by the Bank of Greece shall transfer certain specific assets and liabilities to the Bank of Greece, and it is provided that the total liabilities so transferred shall be such that the Reserve of the Bank of Greece, as defined in Art. 62, shall not be less than 50 per cent of the notes in circulation and other demand liabilities transferred.

GENERAL BUSINESS

Art. 55. The Bank may :

1. Make and issue bank-notes.
2. Issue demand drafts and bank post bills payable at the Bank's Head Office or branches. They may not, however, be made payable to bearer.
3. Buy and sell gold coin or bullion.
4. Accept money on current or deposit account.
5. Discount, purchase or sell inland bills of exchange and promissory notes arising out of *bona-fide* commercial transactions, bearing not less than two good signatures and maturing within three months ; maturity may be for nine months in the case of inland agricultural bills, provided that the total of such bills discounted is not more than 25 per cent of the total amount of the Bank's portfolio of inland bills and notes. During the first three years of the Bank's existence the discount rate for such inland agricultural bills may be not more than 1 per cent below the Bank's official minimum discount rate, but this shall cease to be operative on the first occasion on which the official minimum rate shall be reduced to 7 per cent.

The Bank may also discount coupons, maturing within three months, of Bonds issued or guaranteed by the Hellenic Government.

6. Discount, purchase and sell Treasury bills, maturing within three months, which are endorsed by some bank, person or firm whose name has been approved by the Directors. The total amount so acquired or accepted as collateral (see 10 (c) below) may not together, at any time, exceed 400 million drachmas. The aggregate of such discounts, collateral security and advances to the State made under Art. 55 (11) (see under Relations with the State) may not exceed one-tenth of the estimated receipts of the ordinary Budget for the current financial year as voted by the Legislature.
7. Undertake the issue and management of the State debt and loans of other public bodies, and operations for the State as provided in Art. 45 (see under Relations with the State).

8. Buy and sell at home and abroad, foreign currencies stabilised on gold, telegraphic transfers, bills of exchange, including Treasury bills, and drafts drawn in or on any country whose currency is stabilised on gold, and maturing within three months, and keep balances with banks in such currencies.
9. Act as agent for or correspondent of any other bank in Greece or abroad.
10. Grant advances for fixed periods not exceeding six months against the following :
 - (a) Gold coin or bullion.
 - (b) Bonds of or guaranteed by the Government and other Greek bonds and shares quoted on the Stock Exchange of Athens ; foreign Government bonds quoted in the Stock Exchange of any principal financial centre, the capital and interest of which are payable in the currency of a country stabilised on gold. Provided that no advance shall exceed 80 per cent of the market value of such bonds and 70 per cent of the shares, and that the eligible bonds and shares shall be chosen by a three-quarter majority of the Board of Directors.
 - (c) Treasury bills of the Hellenic Government within the limitations specified in (6) of this Art.
 - (d) Inland bills of exchange and promissory notes arising out of *bona-fide* commercial transactions bearing not less than two good signatures and maturing within three months, and foreign bills as defined in (8) of this Art.
 - (e) *Bona-fide* agricultural bills bearing not less than two good signatures and maturing within nine months, provided that the amount advanced on them does not exceed 25 per cent of the total advances. For advances to a Co-operative Association one good signature may be accepted for bills referred to in this subsection and under (d).
 - (f) Warehouse warrants for staple commodities duly insured bearing at least one good signature, but no advance may exceed 80 per cent of the current value of the commodities.

The rate of interest on all advances, except those made under (11), may not be less than 1 per cent above the Bank's current official discount rate for three months bills.

11. See under Relations with the State.
12. Accept the custody of monies, securities and other articles of value.
13. Undertake on behalf of third parties the purchase and sale, collection and payment of securities, currencies and credit instruments at home and abroad and the purchase and sale of gold and silver.
14. Invest an amount not exceeding the paid-up capital and reserve funds of the Bank in bonds of the Hellenic Government or other bonds quoted on the Stock Exchange of Athens or other important financial centres, the capital and interest of which shall be payable in the currency of a country stabilised on gold. Securities to be selected by a three-quarter majority of the Board of Directors.
15. Promote the establishment of a clearing house and give facilities for the conduct of its business in premises belonging to the Bank.
16. Do all such things as may be incidental to the transaction of its legitimate business as defined in the Statutes.

Art. 56. The Bank may not :

1. Issue notes of a denomination less than 20 drachmas.
2. Engage in trade or have a direct interest in any commercial, industrial or other undertaking.
3. Become the possessor of immovable property, except so far as is necessary for its own business and as provided in Art. 58 below.
4. Purchase its own shares or the shares of any other bank or company.
5. Pay interest on deposit or current accounts except as provided in Art. 45 (see under Relations with the State), and that interest not exceeding 1 per cent per annum may be paid on the deposit or current accounts of other banks.
6. Allow the renewal of maturing bills of exchange save in exceptional circumstances and on a resolution of the

- Board of Directors, when one renewal may be made for a period not exceeding three months.
7. Directly or indirectly make advances to the Government, except as provided in Art. 55 (11) (see under Relations with the State).
 8. Grant overdrafts or unsecured advances, or advances secured otherwise than as laid down in Art. 55 (10).
 9. Draw or accept bills payable otherwise than on demand.
 10. Discount or accept from any one party (unless from the Government under Art. 55 (11)) as security without a special resolution adopted by a three-quarter majority vote of the Board of Directors, bills exceeding one-tenth of Bank's paid-up capital, taking into account the liabilities of the party to the Bank as bill acceptor, drawer or endorser, but excluding advances made under Art. 55 (10) above.

Art. 58. If the value of the security held against any advance diminishes, or the debt is regarded as doubtful, the Bank may accept as additional security a mortgage on immovable property or any other security approved by the Board of Directors.

Any immovable property coming into the possession of the Bank as a result of failure to pay a debt shall be realised as speedily as possible.

Art. 60. The Bank to publish its minimum rate of discount.

RELATIONS WITH THE STATE

Art. 3. The Government binds itself not to issue or reissue money of any type other than subsidiary coins of denominations not higher than 10 drachmas and these only to the Bank at its request.

Art. 45. All banking accounts and balances of the State and State undertakings to be kept at the Bank.

No interest to be paid on such accounts, except that the Bank may pay on funds held abroad interest at a rate lower by not less than 1 per cent than the average rate earned by the Bank on such funds.

The Bank to be entrusted with the issue and management of all internal State debt.

Art. 46. The Bank shall not grant accommodation to the State or State undertakings, directly or indirectly, otherwise than as in Art. 55 (11) below. Neither shall the Bank guarantee Treasury bills or other obligations of the State or State undertakings.

Art. 55 (11). The Bank may make advances in drachmas to the Government for expenditure authorised in the annual State Budget, provided that the whole of the advances outstanding shall not exceed 400 million drachmas, and that all advances shall be repaid not later than at the end of the quarter following the close of the fiscal year in respect of which they were made, and subject to the provision that the aggregate of Treasury bills discounted and accepted as collateral and direct advances to the State shall not exceed one-tenth of the estimated receipts of the ordinary Budget for the current financial year as voted by the Legislature (see Art. 55 (6) under General Business).

By Art. VIII. of the Draft Protocol for signature by the Hellenic Government (League of Nations Publications, *Economic and Financial*, 1927, ii. 56), the Government undertakes not to seek short-term advances or to issue Treasury bills or other short-term obligations in excess of 800 million drachmas.

Art. 47. The Minister of Finance may nominate a Government Commissioner who shall have the right to attend all General Meetings and meetings of the Board of Directors, but not to vote. The salary to be paid by the State.

He shall have the right to protest against any decision of the General Meeting or Board of Directors which he considers contrary to these Statutes or other laws of the State. Any such protest, if concurred in by the Minister of Finance within two days, shall have the force of a suspensive veto until the question has been decided by a Commission of three persons, to be named within seven days on a request from either the Bank or the Government Commissioner and to report within seven days of nomination. The Commission shall consist of one nominee of the Government, one nominee of the Bank and a Chairman chosen jointly by the Government and the Bank, or who, failing an agreement, shall be the President of the Cour de Cassation.

Art. 48. No representative of the Government shall have

access to the books of the Bank, except that for the purposes of the preceding article the Government Commissioner may require to be furnished with any necessary evidence.

Art. 49. Any question of dispute between the Government and the Bank other than those leading to a suspensive veto of the Government Commissioner shall be settled by arbitration in the same manner as laid down in Art. 47.

Art. 50. The Bank shall not be subjected to any special regulations of the Government during the period of its sole privilege of note issue with the exception of those provided by these Statutes.

Art. 73. The Bank to be exempt from all taxes or duties levied by the State except as provided in Art. 63 (see under Reserve).

See also :

Art. 9 under Capital *re* increase of Capital.

Art. 71 under Profits and Reserve Fund for State share in profits.

Art. 27 (*l*) under Management *re* Design, etc., of notes.

Art. 29 under Management *re* Appointment of Governor.

Art. 63 under Reserve *re* Suspension of Reserve requirements.

Art. 54 under Returns.

Art. 74 under Term of Charter and Liquidation.

RETURNS

Art. 51. At the end of the financial year (31st December) the accounts to be submitted for audit to the Auditors elected by the General Meeting.

Art. 52. A Return of assets and liabilities as on the 7th, 15th, 23rd and last day of each month to be drawn up in a prescribed form and to be published not later than a week after these dates.

Art. 53. The balance sheet and profit and loss account to be as on 31st December of the previous year to be published not later than one month before the date of the Annual General Meeting.

Art. 54. The Bank to publish its returns, balance sheet, profit and loss account in the official *Gazette*. A copy of all accounts and notifications and of the annual report to be sent to the Minister of Finance.

TERM OF CHARTER AND LIQUIDATION

Art. 1. The duration of the Bank to extend to 31st December 1970, but may be prolonged by a decision of the General Meeting confirmed by a Decree.

Art. 2. The exclusive privilege of note issue to extend till 31st December 1960, and remain in force thereafter unless withdrawn by law, provided that such withdrawal shall not take effect before the expiration of three years from the passing of such an Act; but the privilege may be revoked at any time if the Bank fails to ensure that the gold value of its notes remains stable.

Art. 74. In the event of the withdrawal of the note-issuing privilege the Bank shall be wound up, the assets and liabilities being valued by three persons, one of these to be appointed by the Government, one by the Board of Directors, and the third to be a person agreed upon by the Government and the Board of Directors, or failing agreement appointed by the President of the Cour de Cassation.

The nominal value of the shares shall be paid to the shareholders and any net excess in the value of the assets above the liabilities shall be divided equally between the Government and the shareholders.

HUNGARY

NATIONAL BANK OF HUNGARY

PURPOSE OF THE BANK

1.¹ To regulate circulation of money, to facilitate compensation of payments and to take measures for utilisation of available capital subject to provisions of the Statutes.

Main function to prepare the way for the introduction of specie payments by forming a reserve of gold bullion and of claims payable in stable currencies, and to ensure continuance of specie payments when once introduced.

Bank to provide by all the means at its disposal for maintaining stability of value of notes in terms of gold exchange, pending introduction of specie payments.

¹ Numbers refer to Articles of Statutes of Hungarian National Bank, 1924, as amended.

CAPITAL

5. Thirty million gold crowns in shares of 100 cr. each, fully paid. Increase or decrease of capital is subject to approval of Legislature.

7-8. Shares are bearer, inscribable upon application.

PROFITS AND RESERVE FUND

99. Of net receipts 5 per cent to staff pension fund, to which special appropriations may also be made with a view to accumulating adequate capital fund as actuarially determined.

Then 10 per cent to reserve fund—to be reduced to 5 per cent when reserve equals 20 per cent of capital.

Then 8 per cent to shareholders.

Of remainder, one-third to shareholders, up to 10 per cent dividend, two-thirds to State.

Of residue, one-quarter to shareholders, three-quarters to State.

(State profits to go to liquidating State debt to Bank.)

100. Appropriations from net profits to reserve fund to cease when it equals 50 per cent of capital, so long as it remains at this amount.

Appropriations to pensions fund to cease when that fund is considered by actuaries sufficient security for any claims that may be made.

102-110. Special arrangements *re* liquidation are on same lines as in case of National Bank of Austria (*vide supra*).

BRANCHES

The Bank may establish Branches in Hungary.

MANAGEMENT

Board of Directors

24. Board of Directors control administration and have free discretionary right to fix the uniform rate of interest, both for discounts and loans. Internal arrangements of Bank to be decided by Board.

25. Board consists of Governor plus thirteen members and

four supernumerary members. Directors elected by General Assembly.

26-30. Governor, whose office expires on day of fifth annual general meeting after appointment, is nominated by Finance Minister, and appointed by Head of State. Two Deputy-Governors are elected by Board from its own members, subject to confirmation by Head of State. Salaries of Governor and Deputies fixed by Board. Directors elected for five years. All above are eligible for reappointment.

31. Solemn undertaking of fidelity and secrecy is given by Governor, Deputy-Governors and Directors.

33. Board meets as a rule once a month, but must be summoned to meet on request of four members, General Manager or State Commissioner. State Commissioner to be invited to all meetings of the Board.

Executive Committee

36a. Executive Committee, consisting of Governor, two Deputy-Governors and three Directors, may take urgent decisions in matters reserved for Directors, subject to report to Board at next meeting.

Board of Management

37-41. Board of Management consists of General Manager and three to five Managers.

General Manager takes part in advisory capacity with Board of Directors and Executive Committee. He shall be in supreme control of all business departments.

Board of Management is executive organ of Board of Directors; it fixes limits of credit available for customers; establishes agencies; submits reports and proposals to Board of Directors. Board of Management meets as required, but at least once a month, under Chairmanship of Governor. State Commissioner to be invited.

Auditors

44. Five Auditors, elected by General Assembly from shareholders, shall examine annual balance sheet and report to General Assembly. They are entitled to inspect books and demand information.

General Assembly

10-11. General Assembly, representing whole body of shareholders, to meet for ordinary annual meeting not later than April, and for extraordinary meetings as required.

14. Twenty-five shares gives right to one vote, but no one shareholder to have more than 100 votes, either on his own account or as proxy.

20. Agenda include :

- (a) Receipt of Directors' report.
- (b) Approval of balance sheet and vote of confidence in Board after hearing Auditors' report.
- (c) Allocation of surplus and fixing of dividend.
- (d) Election of Directors and Auditors, and supernumerary members.
- (e) Amendments of Statutes or proposals for increase or decrease of capital (subject to approval of Legislature).
- (f) Petition for extension of charter or matters concerning liquidation of company.

22. At election of Directors provision must be made that persons elected shall include representatives of agriculture, industry, commerce and banking institutions. Not more than four members of Board shall be members of Boards of other banking institutions.

NOTE ISSUE

80. Exclusive right of issue for Bank for duration of Charter.

82. Notes are legal tender. The general obligation of acceptance shall lapse with introduction of specie payments.

83. Bank to accumulate gold reserve with view to resuming specie payments. When Government and Bank agree that time has arrived, matter must be submitted to Legislature. Meanwhile, Bank is not obliged to redeem its notes in specie.

84. If, after specie payments are resumed, Bank fails to redeem notes presented at Head Office in metal within twenty-four hours, privilege of charter to be forfeited, unless failure is due to *force majeure* recognised as such by Government.

RESERVE

85. Until introduction of specie payments, total notes in circulation plus immediate liabilities less sum represented by State debt to be covered by metal reserve (including foreign currencies and drafts):¹

For first 5 years to extent of 20 per cent.

For next " " 24 "

For next " " 28 "

Thereafter " " 33½ "

Pending resumption of specie payments, a minimum of 25 million gold crowns must be held in foreign credits as defined in leading money centres. This sum may not be decreased except by decision of Board of Directors, approved by not less than eight members and the Governor.

86. Total notes in circulation, including all immediate liabilities over and above State debt, must be covered by:

1. bullion and coin;
2. bills and warehouse warrants discounted;
3. foreign securities (bills, claims or cash deposits), or foreign currencies not included in metal reserve under 85;
4. bills payable in Hungary and expressed in foreign currency, otherwise complying with conditions of eligibility for discount.

For first five years, but not later than date of resumption of specie payments, loans against movable property may be used as cover for notes.

No assets other than those enumerated may serve as cover.

87. After resumption of specie payments, not less than one-third of notes in circulation and of immediate liabilities is to be secured by reserve as under 85—remainder by assets enumerated in 86, and by balance of State debt.

¹ Foreign currencies mean foreign notes which are not subject to extraordinary fluctuations of exchange; foreign drafts mean bills expressed in such currencies and carrying the liability of a bank of unquestionable solvency, and payable in one of the leading world markets, and otherwise complying with conditions of eligibility for discount. Credit balances and cash deposits, available at any time and held on similar conditions, are also covered.

88. Note Tax.—If prior to resumption of specie payments ratio specified in 85 is not maintained, tax is to be paid equal to discount rate (a) plus 1 per cent if ratio is less than 20, 24, 28 or $33\frac{1}{3}$ per cent, but more than 18, 22, $25\frac{1}{2}$ or 30 per cent in the respective periods, and (b) plus $1\frac{1}{2}$ per cent for every 2 per cent or fraction thereof by which ratio falls below 18, 22, $25\frac{1}{2}$ or 30 per cent in respective periods.

Minimum tax to be 5 per cent.

89. After resumption of specie payments, tax to be paid as soon as reserve prescribed in 87 (including foreign currencies and drafts) falls below 40 per cent at discount rate plus :

- (a) 1 per cent if ratio is between 40 per cent and $33\frac{1}{3}$ per cent;
- (b) $1\frac{1}{2}$ per cent for every further 3 per cent or fraction thereof by which ratio falls below $33\frac{1}{3}$ per cent.

Minimum tax to be 5 per cent.

92. After legal ratio of currency has been established, Bank to be obliged to buy gold at prescribed parity against notes, charges on account of assay, etc., to be for account of seller.

93. Bank to be obliged to exchange notes for notes of other values.

GENERAL BUSINESS

57-79. The Hungarian National Bank is entitled :

1. (a) To discount and negotiate bills of exchange, securities, coupons and public warehouse warrants.

Bills must originate from commercial transactions and be expressed as payable in Hungarian currency, and be of not more than three months' maturity. Normally three, but in any case two, good signatures must be on bill. Two good signatures are required in case of warrants. Subject to compliance with above, Bank may discount (i.) bills originating from customs or taxation liabilities, presented by Departments concerned, or (ii.) bills drawn by commercial undertakings of State or local bodies, if they are managed as independent enterprises not connected directly with public administration. In the case of agricultural bills period of maturity may be up to

six months, provided one of the sureties is an agriculturist.

Committees of Scrutiny, composed of persons familiar with local business and agricultural conditions, to examine bills.

- (b) To discount securities admissible as basis of loan and coupons attached, provided that maturity does not exceed three months.
2. To grant loans on movable security for not more than three months, provided that if such loans exceed amount of bills, interest shall be raised to one and a half times discount rate. Following may be accepted as collateral:
 - (a) gold or silver, minted and unminted;
 - (b) securities (excluding shares) quoted on Budapest Exchange;
 - (c) bills in local or foreign currency, payable within six months, and otherwise eligible for discount;
 - (d) foreign drafts and currencies.

Directors shall decide what securities may be accepted as collateral by Bank, and to what extent of quoted value, and up to what total value.
3. To carry on deposit and current account business. No interest may be paid in respect of current accounts.

The Bank may take charge of securities, money, precious metals and deeds, and may administer securities.
4. To issue drafts on its own branches.
5. To undertake commission business for third parties, buying after receiving cover and selling after having received delivery.
6. To buy and sell gold and silver, minted and unminted.
7. To buy and sell bills of exchange and cheques drawn on foreign banks, and to undertake foreign exchange business generally, to effect payments for third parties, to keep in foreign countries requisite credit balances and to execute any transactions necessary to secure a lucrative investment thereof.

RELATIONS WITH THE STATE

45. Government Commissioner and Deputy-Commissioner to be appointed by Head of State on nomination of Minister of Finance to ensure that Bank proceeds in conformity with laws and statutes. (Bank may be required to pay cost.)

46. Commissioner is entitled to attend meetings of Board of Directors, Management Board and General Meetings in deliberative capacity. He is to be given facilities for investigation, and may protest against decisions that he may consider contrary to law or statutes.

47. Protest has effect of suspending action and involves negotiation between Bank and Government. If no agreement is reached, arbitration follows—Court consists of President of Supreme Court of Justice and four members, two appointed by Government and two by Bank.

50. Neither State nor local bodies can avail themselves, either directly or indirectly, of Bank's resources, except against value given in form of notes, gold or foreign credits.

State not to issue paper money, and in general to take no measures calculated to impede Bank's discharge of its primary obligations to maintain value of currency (*vide* Art. 1, last subparagraph, p. 267).

If either of above undertakings are infringed, Bank may lodge complaint before Royal Hungarian Supreme Administrative Court. Bank may also demand that, pending decision, measure complained of should be suspended. President of Court is to give decision within twenty-four hours regarding such application.

51. Bank may execute commission transactions for State, provided that such transactions do not result in debit balance for State. Bank shall act as State's bankers free of charge (except as regards out-of-pocket expenses).

The State shall, as far as possible, concentrate its money transactions with Bank.

Bank not to enter into other business relations with State which involve granting of loans or credit by the Bank.

113. Assets and receipts of Bank and dividends to be exempt from taxes and such measures as might involve burdens on Bank in favour of State or other public authorities. Bank is liable to house or land taxes on immovable property.

114. Books and records of Bank and documents issued by it are exempt from dues.

For State share in Profits see Art. 99, under Profits and Reserve Fund.

For State Appointments see Art. 26, under Management.

For Increase of Capital, subject to Government approval, see Art. 5, under Capital.

For State and Liquidation see Arts. 103 and 104 below.

RETURNS

96. Balance sheet to be drawn as on 31st December. Securities shall be shown at market rate on 31st December, or purchase price, whichever is lower. Only administrative expenses which may be spread over several years are those involved by issue of new form of notes.

101. Four returns of assets and liabilities in prescribed form, as on 7th, 15th, 23rd and last day of month, to be published not later than on seventh working day thereafter.

Balance sheet and annual profit and loss statement to be published not later than eight days before annual meeting.

TERM OF CHARTER AND LIQUIDATION

Art. 102. To 31st December 1943.

Three years before the expiry of the Charter the General Assembly shall decide whether to apply for renewal. If it does apply, notice must be given to the Government for a year before the expiration of the Charter.

Art. 103. The Bank Company may also be liquidated before the expiration of the Charter with the approval of the Legislature. Such approval is not required if the Government infringes its obligations to the Bank laid down in the Act relating to the Bank's Charter or in these statutes.

A two-thirds majority of a General Assembly specially convened is required for a decision to wind up the Bank.

Art. 104. The Government shall be entitled, with the approval of the Legislature, to take over the whole banking business at its actual value in the event of the expiration of the Charter, or of forfeiture of the Bank's privilege or liquidation before the expiry of the Charter.

ITALY

BANK OF ITALY

CAPITAL

Art. 5.¹ The capital consists of 240 million lire in 300,000 shares of 800 lire nominal value, of which 600 lire is paid up.

PROFITS AND RESERVE FUND

Art. 65. One-twentieth of the net profits to be paid into the reserve fund until this equals one-fifth of the capital.

If the net profits allow of a dividend of more than 5 per cent on the paid-up capital, a sum equal to 20 per cent of the excess to be distributed shall be paid into the reserve fund.

The above payments to the reserve fund will cease when the reserve fund equals one-fifth of the capital, but the general meeting, on the proposal of the Administrative Council, may allocate any part of the profits to special funds, after making due provision for the share of the State.

Art. 23 of the Law relating to the Banks of Issue, 1910.

The State to participate in the earnings of the Bank of Italy to the extent of one-third if the net earnings are in excess of 5 per cent on the capital invested, but do not exceed 6 per cent, and of half when the net earnings exceed 6 per cent.

By the law of September 1923, for the period of 1923-30, the share of the State in the Bank's profit was fixed at the amount payable in respect of the balance sheet of the Bank for 1922, and the dividend to shareholders at 60 lire per share (*i.e.* 10 per cent on paid-up capital).

BRANCHES

Art. 2. The Administrative Council determines :

- (a) The opening and closing of chief offices (*sedi*) with the approval of general meeting and the Government.
- (b) Opening and closing of branches (*succursali*), the consent of the Government being necessary for

¹ Numbers in this and following sections refer to Articles of the Statutes of the Bank of Italy as revised January 1926, except where otherwise stated, but see also footnote on p. 279.

closing branches existing at the date of the formation of the Bank of Italy.

(c) Opening and closing of agencies.

Art. 2b. The Bank has branches in the Italian colonies administered by special regulation.

Branches may be opened outside the Kingdom of Italy on decision of the Administrative Council with special authorisation of the Government.

MANAGEMENT

Art. 27. The administration of the Bank rests with :

- (a) General Meeting of shareholders.
- (b) Administrative Council.
- (c) Director-General and Deputy-Director-General.
- (d) Councils of Chief Offices, Discount Committees and Directors of Chief Offices and branches.

General Meeting

Art. 28. The General Meeting must be held annually, not later than 31st March.

Art. 29. The ordinary general meeting approves the balance sheet, appoints its due proportion of the Administrative Council (see Art. 39 below) and the comptrollers and substitutes, and deals with any resolutions submitted to the Administrative Council by one or more shareholders, who have held at least 5000 shares for at least three months.

Art. 30. Shareholders have one vote for every 20 shares up to 500 shares held for at least three months and one vote for every 50 shares in excess of 500. Proxies are allowed ; but no one, either as proxy or on his own account, can exercise more than fifty votes in all.

Administrative Council

Art. 39. The Administrative Council consists of :

- (a) Two members elected annually by each of the Councils of the Chief Offices from their own number.
- (b) Five members elected by the shareholders from amongst the remaining members of the Councils of the Chief Offices.

- (c) The Director-General.
- (d) The Deputy-Director-General is present in a consultative capacity only, except when acting as Deputy for the Director-General.

All members of the Administrative Council, the Director-General and his deputy must be Italian subjects.

Art. 40. The Administrative Council elects annually its own officers.

Art. 41. The Administrative Council elects and dismisses the Director-General and Deputy-Director-General.

A two-thirds majority is necessary for the election, an absolute majority for dismissal.

The names of the Director-General and Deputy-Director-General must be approved by the Government.

Art. 43. The general administration of the Bank is vested in the Administrative Council. Its functions are described in detail and include the determination of the rates of interest and discount and in general the conditions for carrying out the operations of the Bank.

Comptrollers and Censors

Art. 46. The supervision prescribed by the Commercial Code is exercised by comptrollers and censors.

The comptrollers ensure that the administration is carried out in accordance with the law and statutes and general regulations.

Director-General

Arts. 48-49. The Director-General is the chief executive officer of the Bank.

General Provisions

Art. 70. The Director-General, Deputy-Director-General, the Directors of Chief Offices and Branches and other officials may not be a member of any other credit institution, carry on a commercial occupation, undertake business on the Stock Exchange, hold a responsible position in any company, be interested in any company of unlimited liability or accept responsibility in any joint-stock company.

Art. 71. Members of any Council of the Bank may not be

connected with the administration of any other Institute with the right of note issue, or be directors or administrators of any other Credit Institution.

Art. 132 of the consolidated Act issued 1910. Members of Parliament cannot hold any office in the Bank, whether with or without salary.

NOTE ISSUE AND RESERVES

Art. 6.¹ The maximum normal limit of the circulation for notes other than those issued on account of advances to the Treasury was fixed at: Bank of Italy, 660,000,000 lire; *Bank of Naples*, 200,000,000 lire; *Bank of Sicily*, 48,000,000 lire; and these amounts were doubled during the war.

By the decree of 6th May 1926, Art. 1, the authority for issuing bank-notes or equivalent notes in respect of the Banks of Naples and Sicily ceased, and by Art. 3 the Bank of Italy was authorised to issue additional notes to an amount equal to the actual circulation of notes issued by the Banks of Naples and Sicily on 30th June 1926.

By Art. 3 of the decree of 7th September 1926 the normal maximum issue of the Bank of Italy is fixed at 7 milliard lire, apart from those representing advances to the Treasury and to the ordinary and special² sections of the Syndicate for Advances against Industrial Securities, and apart from a certain portion of the notes replacing those of the Southern Banks. An increase up to an absolute maximum of 8 milliard is permitted on payment of a tax (see under circulation tax below).

Reserve against notes on trade account

Art. 11. The reserve must not be less than 40 per cent of the normal issue, as per Art. 6.

The metallic reserve must be in Italian legal coin, foreign money admitted to legal circulation in the Kingdom and gold bars. At least three-quarters must be gold.

Fractional silver allowed up to 2 per cent of the reserve.

¹ Numbers in this and following sections refer to Articles of the Law relating to Banks of Issue, 1893, and amendments as codified 1910, except where otherwise stated.

² Now replaced by the Istituto di Liquidazioni.

The following may be included in the reserve :

- (1) Bills of exchange on foreign firms of first-class standing recognised as such by the Finance Minister.
- (2) Certificates of sums deposited in current accounts abroad with banks or banking correspondents of the Treasury.
- (3) Foreign Treasury Bonds. If these are for periods exceeding three months their value to be subject to a deduction equal to their loss in value in case of discount or rediscount (Art. 14).

These classes of securities are limited to 15 per cent of the reserve and must be payable in gold. During the war, certificates of gold deposited abroad were included in the Reserve. These are not reckoned in the above limitation.

Art. 15. Anything in Art. 11 notwithstanding, the metallic reserve for the note circulation, must not fall below an irreducible minimum limit which, since the cessation of note issues by Southern Banks, stands at 528 million lire for the Bank of Italy.

Art. 16. The irreducible metallic reserve against bank-notes to be held separate from other reserves.

Advances to the Treasury

Art. 18. Notes in circulation on account of advances made to the State and not included in the circulation in Art. 6 to be covered by metallic reserve to the extent of not less than one-third.

The total amount of advances which the Bank of Italy must make to the Treasury is fixed at 360,000,000 lire. In addition, during the war and later, issues have been authorised for extraordinary and special advances for which no metallic cover was necessary.

Circulation Tax

Art. 20. The circulation tax is based on the average effective circulation of notes, less the amount equal to the reserve as in Art. 11. Such circulation is not subject to tax, even if it exceeds the limit fixed by Art. 6, provided that the notes are wholly covered by legal coin or gold bullion.

Freedom from taxation is also granted to the circulation on account of ordinary advances to the Treasury.

The rate of taxation is :

0·125 per cent if the note issue does not exceed the former limit of 660 million lire.

1·125 per cent for the issue between 660 million lire and 1100 million lire.

Provided that the prescribed relation be maintained with metallic reserve, as per Art. 11, the tax shall be equal to :

one-quarter of the rate of discount on the note issue between 1320 million lire and 1390 million lire ;

one-half of the rate of discount on the note issue between 1390 million lire and 1460 million lire ;

three-quarters of the rate of discount on the note issue between 1460 million lire and 1530 million lire.

On further excesses of circulation, or if the prescribed relation with the metallic reserve is not maintained, the tax shall equal the whole rate of discount.

By the decree of 7th September 1926 the circulation up to the normal maximum of 7 milliard lire (see above) is taxed at the rate actually in force on that date. On the issue above 7 milliards and up to the absolute maximum of 8 milliards a special tax equal to the whole rate of discount is imposed and increased by one-third in respect of that part of the issue which is not fully covered by the metallic reserve.

Reserves against other Liabilities

Demand obligations must be guaranteed by a special reserve equal to 20 per cent in Treasury Bonds or other Government securities.

GENERAL BUSINESS

I.—Discounts

Art. 27. The Bank may discount :

- (a) Bills of exchange and bank drafts with two signatures of known solvency.
- (b) Treasury bonds.

- (c) Warrants issued by public and bonded warehouses legally constituted.
- (d) Coupons falling due within the current half-year of securities on which the Banks may make advances (see Art. 29 below).

Maximum maturity for the above four months.

Art. 28. During the legal currency of notes, the normal rate of discount may not vary without the authorisation of the Finance Minister.

The Finance Minister may effect changes in the normal rate of discount, whenever he may consider the conditions of the market require it.

The Bank may discount at 1 per cent less than the fixed rate bills of exchange presented by certain institutions, and warrants issued on citrus products to two-thirds of their value, on silks and sulphur in public warehouses, and warrants issued by companies which conduct the public stores for vegetables.

A limit is fixed to the total of such preferential discounts.

The Bank may apply a preferential rate to bills of exchange presented and guaranteed by first-class banking and commercial firms with not more than three months to run, the rate of discount not to be less than $3\frac{1}{2}$ per cent.

II.—*Advances*

Art. 29. The Bank may make advances for not more than four months.

- (1) On Government and Treasury bonds. On long-term Treasury bonds advances may be made for periods up to two years.
- (2) On bonds guaranteed by the Government or of which the Government has guaranteed the interest.
- (3) On notes of mortgage credit institutions.
- (4) On bonds payable in gold issued or guaranteed by foreign states.

The advances on (1), (2) and (3) may be made up to nine-tenths of market value; on (4) up to four-fifths of market value; on Treasury bonds up to full value.

- (5) On gold and silver coins, whether national or foreign, in legal circulation, and on gold bars.

- (6) On silver bars reckoned at not more than two-thirds of current value.
- (7) On silks, sulphur and spirits, and on certificates of public warehouses under certain specified conditions.

The Bank may make advances up to six months on certificates of deposits of certain goods under certain specified conditions, also on bonds issued under the law by grantee railways and subsidised extra-urban tramway companies for not more than three-quarters of their current value.

Art. 30. During their legal circulation the legal interest on advances may not vary without the authorisation of the Government.

The Finance Minister may change the rate of interest whenever he deems that the conditions of the market demand it.

III.—*Purchase and Sale of Bills of Exchange, etc.*

Art. 31. The Bank may, within certain specified limits, purchase and sell drafts and assignments on foreign countries, and bills of exchange on foreign countries, with two or more signatures of firms known to be solvent, of a maturity not greater than three months and payable in gold.

The Bank may make investments in foreign bills of exchange and current accounts, not intended for the reserve covering circulation and sight debts within such limits as may be prescribed by the Finance Minister, in view of the general conditions of the money market.

IV.—*Investments*

Art. 32. The Banks may hold investments in Italian bonds or other bonds issued or guaranteed directly by the Government. The amount is limited by law.

V.—*Deposits*

Art. 36. The Bank may receive interest-bearing deposits on current account. The rate of interest on current accounts is fixed by decree of the Finance Minister after consultation with the Bank.

The Statutes of the Bank of Italy also provides that the Bank may (Art. 14):

- (1) Accept deposits for safe keeping, as security or pledged in any other way.
- (2) Accept sums on current account with or without interest according to the law, repayable at sight or at fixed term.
- (3) Invest up to 50 million lire of the capital in buildings for the use of the General Administration, Chief Offices, Branches and Agencies.
- (4) Collect dividends on private account or for companies, and in general act as financial agent for or at the risk of third parties.
- (5) Carry out any other operations in accordance with the law and with the approval of the general meeting.

Art. 17. The Bank may act as Clearing House: under the Decree of May 1926 it is laid down the Bank of Italy shall have the exclusive charge of the Clearing Houses.

RELATIONS WITH THE STATE

Art. 108. The supervision of the Bank of Issue is vested in the Treasury.

Art. 110. A permanent commission is appointed for this purpose under the presidency of the Finance Minister. It consists of three senators and three deputies elected by their respective Chambers, five members appointed by royal decree upon the recommendation of the Finance Minister and with the consent of the Council of Ministers.

The members appointed by the Government are:

A President or Councillor of the State Council.

A President or Councillor of the Court of Accounts.

Director-General of the Treasury.

The Director-General of credit in the Ministry of National Economy.

Art. 111. The permanent commission advises the Finance Ministry on his request.

Art. 113. The permanent supervision of the Bank of Issue and the branch management is undertaken by the Finance Minister through the general direction of the Treasury.

Art. 114. A Government inspector or official delegated by the Finance Minister shall be present at the general meetings of shareholders and of the Administrative Council with power to suspend the execution of decisions that may in his opinion be contrary to the laws, regulations and statutes.

The Minister has the power to annul any such suspended decision if it is recognised as contrary to the laws, regulations and statutes.

Art. 115. The Finance Minister may suspend, for the above reasons, and thereafter annul any decision, basing his action on the report received, if the inspector has failed to act.

Art. 117. The general-directorate of the Treasury shall examine the annual balance sheets and, where deemed necessary, verify them with the records.

Art. 118. Reports on the operations of the Banks in approved form must be handed in on the 10th, 20th and last day of each month and transmitted to the Treasury.

Art. 130. Not later than the month of May the Finance Minister shall submit to Parliament a detailed account of the Bank of Issue during the previous calendar year.

Art. 136. The Treasury shall have one representative on any Clearing House established.

Art. 39. The Bank may assume the duties of provincial revenue offices. They may make advances to Provinces on account of taxes for a sum not greater than the total of two bi-monthly payments.

The sums thus advanced must be repaid within the maximum term of six months and a new advance may not be granted until the expiration of two months after the entire repayment of the original loan.

Art. 40. The Bank of Italy shall act as State Treasury in all the Provinces and Colonies.

See also Arts. 28, 30, 31, 36, under General Business; Art. 2, under Branches.

RETURNS

Art. 64.¹ The Bank must draw up an annual balance sheet and an account of the assets and liabilities in accordance with the Commercial Law, and a profit and loss account.

Art. 68. The profit and loss account must be presented to the Comptrollers with the annual balance sheet not later than 15th February of every year.

Art. 69. The profit and loss account for the half-year must be presented by the Director-General to the Administrative Council during July of each year. On the basis of this account the Administrative Council, with the approval of the Comptrollers and the Minister of Finance, may vote an instalment of dividend to the shareholders.

JAPAN

BANK OF JAPAN

CAPITAL

Art. 4.² Sixty million³ yen in shares of 200 yen each. May be increased with approval of the Government.

Art. 5. Only Japanese entitled to hold shares.

B. Art. 8. Government may become a shareholder in Bank to an amount of one-half its capital.

B. Art. 14. Any person desirous of becoming a shareholder in Bank must obtain the permission of the Minister of Finance.

PROFITS AND RESERVE FUND

B. Art. 36. The net profit apportioned as follows :

1. A dividend of 6 per cent per annum on the paid-up capital.
2. At least one-tenth of the remainder to be set aside as a reserve fund.
3. An amount to an extent not exceeding one-tenth of the said remainder shall be set aside as bonuses

¹ Numbers refer to Articles of the Statutes of the Bank of Italy, as revised January 1926, except where otherwise stated.

² Numbers refer to Articles of the Bank of Japan Act, 1882, and of the By-laws of the Bank, the latter being indicated by the letter B.

³ Originally 10 million yen.

and allowances for the officers, subject to the Internal Regulations of the Bank by which the actual rate is fixed.

4. The amount remaining after the above three deductions have been made shall be divided among the shareholders, subject to the approval of the Minister of State for Finance for the actual rate of dividend.

B. Art. 38. If the dividend falls below 6 per cent it shall be made up by drawing on reserve fund, which is to be recouped if ensuing half-year's dividend exceeds prescribed rate.

Art. 10. The reserve fund to be used :

(a) To make good losses of capital.

(b) To make up any deficit in the dividend below 6 per cent.

B. Art. 20. The reserve fund shall be employed in purchase of gold and silver coin or bullion and public loan bonds, provided that earnings accruing from the fund are added to gross profits of Bank.

BRANCHES

Branches may be established.

MANAGEMENT

Art. 17 and B. Art. 41. Administrative Board to consist of one Governor, one Vice-Governor and four Directors. Three to five Auditors to supervise business management. Also Discount Committee to examine bills to be discounted.

Governor

Art. 18 and B. Art. 42. Governor to be appointed by Government with Imperial nomination and Vice-Governor with Imperial approval for five years, both being eligible for re-appointment. They are to hold no other official appointments while in office.

Directors and Auditors

B. Arts. 45-46. Directors to be appointed by Finance Minister from twice as many candidates elected by General Meeting of Shareholders. Casual vacancies to be filled by nomination by Finance Minister. Term of office, four years, eligible for reappointment.

B. Art. 50. Auditors to be elected in general meeting of shareholders for three years and are eligible for reappointment.

Art. 19. Directors and auditors may not be officials of other banks or companies.

B. Art. 53. If share of half-yearly profits to be distributed under paragraph 3 of Article 36 exceeds 5000 yen for each Director and 2000 yen for each Auditor, general meeting of shareholders may reduce share to said amounts.

B. Art. 55. If Governor considers decision of Administrative Board improper he may summon General Council of Bank to consult. If he considers a decision adopted by any meeting as contrary to the Act or By-laws or to the interests of the State he shall suspend decision and report to Government. If no instruction is received from Government within thirty days from the report original decision to be carried out.

B. Art. 58. Administrative Board shall decide all matters relating to Bank, calculate rates of discount and amounts to be applied to discount of bills or notes issued by Government, to loans on public loan bonds and other securities and to purchase of public loan bonds. Execution of decision is subject to approval of Auditors' Meeting.

Annual Report on operations of Bank to be submitted to shareholders.

B. Art. 61. Auditors shall supervise all operations of Bank and inspect all books. Approval of Auditors' Meeting to be obtained to all decisions on matters relating to change in rate of discount, to increase or decrease in amount of bills or notes issued by Government to be discounted or of amount of loans to be made on Government securities. But if immediate action is required rate of discount may be changed by Administrative Board, provided the approval of Auditors' Meeting must be obtained within five days.

B. Art. 62. Auditors' Meeting to be held at least once a month.

General Council

Art. 64. Meeting of Governor, Vice-Governor, Directors and Auditors to be called General Council of the Bank.

B. Art. 65. General Council to meet at least once a month. Determines distribution of profits and amount of bonuses, internal regulations of Bank, establishment and abolition of

branches, terms and procedure for receiving deposits for safe keeping. Decision on above four topics cannot be carried into effect unless approved by Finance Minister.

Discount Committee

B. Art. 67. Discount Committee to consist of three persons appointed by General Council of Bank, to receive fees in proportion to their attendances.

B. Art. 68. Discount Committee to be presided over by one Director to examine all bills submitted for discount.

For Government Supervision see under Relations with the State.

General Meetings

B. Art. 73. General Meeting of shareholders may be attended by only those shareholders who own ten or more shares for at least sixty days before meeting. Persons may appoint proxies.

Art. 20 and B. Art. 75. Each shareholder to have one vote for every ten shares, one additional vote for every fifty shares over and above that number, provided that no one can have more than ten votes as proxy for others. This does not apply to cases of proxy for the Imperial Household, the Government, a company, a bank or similar establishment.

B. Art. 76. General Meeting of shareholders to take place in February and August each year. It shall pass the Balance Sheet of preceding half-year, shall elect Directors and Auditors to take the place of those whose terms expire.

B. Art. 77. Extraordinary General Meeting of shareholders may be convoked, whenever necessary, either by Finance Minister or Administrative Board, or at any time upon request either of the Auditors' meeting or of not less than fifty persons entitled to attend the General Meeting.

B. Art. 84. Dismissal of a Director or Auditor during his term can be decided upon only by consent of three-fourths or more of shareholders present at General Meeting owning at least one-half of entire shares of the Bank. Dismissal of a Director requires the approval of the Finance Minister.

B. Art. 85. Amendment of By-laws can only be passed by General Meeting of shareholders specially convoked and

representing three-fifths of the shares of Bank. A majority of two-thirds of votes present is required and Government approval necessary.

NOTE ISSUE AND RESERVE

Extract Summary of the Convertible Bank-note Regulations.

Promulgated by Decree No. 18 of the Dajokwan (the Council of State) on the 26th of May in the Seventeenth Year of Meiji (1884).

Art. 1. Bank-notes shall be issued by the Bank of Japan and shall be convertible into gold coin.¹

Art. 2. Subject to following paragraph, notes issued to be against an equivalent value of gold and silver coin or bullion. Silver coin and bullion shall not exceed one-fourth of the total amount of such reserve.

The Bank of Japan may issue convertible bank-notes to the amount of 120,000,000 yen against Government loan bonds or Treasury bills or other certificates and commercial bills of a reliable nature.

In case an increase in the circulation of money is deemed necessary, according to the condition of the market, the Bank of Japan may make an additional issue of convertible bank-notes, with the approval of the Minister of State for Finance, against Government loan bonds or Treasury bills or other certificates and commercial bills of a reliable nature, over and above the issues provided for in the two preceding paragraphs. In such case the Bank shall pay a tax on the issues at the rate of not less than five per cent per annum, and the actual rate shall be fixed on each occasion by the Minister of State for Finance.

The Bank of Japan shall make an advance to the Government to the amount of 22,000,000 yen without interest for the purpose of redeeming Government paper money.

The period of repayment of the advance provided for in the preceding paragraph, and the annual amount of repayment thereof shall be determined by the Minister of State for Finance.

Art. 3. The denominations of convertible bank-notes shall be One Yen, Five Yen, Ten Yen, Twenty Yen, Fifty Yen, One Hundred Yen and Two Hundred Yen ; and the amount of

¹ An amendment has been made from the original term " silver coin " to the present term " gold coin " by Law No. 18 of 26th March 1897.

issue for each kind shall be determined by the Minister of State for Finance.

Art. 4. Notes are legal tender.

Art. 5. Bank-notes shall be manufactured by the Bank of Japan in conformity with forms and designs fixed by the Minister of State for Finance, and the amount manufactured shall be reported to the Minister of State for Finance on each occasion.

Art. 6. Notes convertible into coin at the Head Office or its branches on demand,¹ provided that at the branches such conversion may be deferred until there is time for the coin to arrive from the Head Office.

Art. 7. The Bank of Japan to take gold on demand in exchange for the notes, free of charge, at its Head Office or its branches.

Art. 8. Daily and weekly returns of notes issued and reserve to be submitted to Minister of Finance.

Art. 9. Comptrollers instructed by Minister of Finance to supervise all matters relating to notes.

*Summary of Law relating to Taxation on Note Issues
Promulgated by Law No. 56 of 9th March 1899*

The Bank of Japan to be taxed at the rate of one and a quarter per cent per annum on the monthly average amount of its convertible notes issued against securities under second paragraph of Article 2 of the Convertible Bank-note Regulation, provided that the Bank shall be exempt from the obligation to pay a tax on notes advanced at interest of one per cent or less or without interest, in compliance with the special order of the Government.

The obligation to pay a tax, provided for in the present Law, shall have nothing to do with any other obligations under which the Bank of Japan has already been or may, in the future, be put.

GENERAL BUSINESS

Art. 11. The operations of the Bank shall be as follows :

1. to discount or purchase bills or notes issued by the Government, bills of exchange, and other commercial bills as well as similar instruments ;
2. to deal in gold and silver bullion ;

¹ At present there is an embargo on the export of gold coin and bullion unless special licence is obtained from the Minister of Finance.

3. to make loans on gold and silver coin and bullion;
4. to collect bills for the banks, companies and merchants who had previously entered into a business relation with the Bank;
5. to receive sums of money in deposit accounts and gold and silver coin, precious metals, and documents for safe keeping;
6. to make advances on current account or loans, for fixed terms, upon the deposit of public loan bonds, bills or notes issued by the Government, and other securities guaranteed by the Government, provided that the amount of such advances and loans and the rates of interest thereon shall be determined on each occasion by a joint resolution of the Governor, the Vice-Governor, the Directors, and the Auditors, with the approval of the Minister of State for Finance therefor.

B. Art. 23. Commercial bills to be discounted by Bank to be only such as are transferable by endorsement, endorsed by two or more reliable persons of means and payable within 100 days. However, such bills bearing only one endorsement may be admitted to discount by special arrangement approved by the Finance Minister.

B. Art. 24. Merchandise or warehouse warrants of value equivalent to bill may be accepted as collateral replacing one signature.

B. Art. 25. Discount of Government bills or notes to be determined by Administrative Board after consulting on each occasion with Minister of Finance regarding maturity and rate of discount.

B. Art. 28. Loans to be made only to reliable persons, and period of loan at longest not to exceed six months and amount of advance not to exceed 80 per cent of market value of securities deposited.

If renewal of loans asked for at maturity, application may be complied with on one occasion only, except where special permission is granted by the General Council of the Bank.

B. Art. 26. Rate of discount to be fixed monthly by Administrative Board. However, rate may be changed at any time deemed necessary by Board.

B. Art. 27. Amount to be applied to discount of bills or notes issued by Government, and amount of loans to be made on deposit of public loans, bonds and securities guaranteed by Government, as well as interest, shall be decided every ten days by the Administrative Board on agreement with Auditors' Meeting and with approval of Finance Minister.

B. Art. 33. Buildings, real estate or other property owned by debtors in default may be taken over by the Bank, provided they are disposed of within one year, unless permission to the contrary is obtained from the Finance Minister.

Art. 12. The Bank of Japan shall not engage in lines of business other than those set forth in Article 11, and is expressly forbidden to undertake the following operations :

1. to make loans on the security of real estate or shares of banks or other companies ;
2. to make loans on the security of shares of the Bank or to purchase the same ;
3. to become a shareholder in industrial companies or to take any part, either directly or indirectly, in industrial enterprises ;
4. to become the owner of real estate, except so far as it is necessary for establishing the Head Office and branches of the Bank.

Art. 13. Bank of Japan to undertake management of Government funds.

Art. 15. Bank authorised to issue drafts and orders.

RELATIONS WITH THE STATE

Art. 24. The Government shall control all the operations of the Bank of Japan, and shall prevent not only any operation which is contrary to the Act or By-laws, but also any measure that the Government may deem disadvantageous for the State.

Art. 21. The Minister of State for Finance shall despatch Comptrollers to the Bank on the express commission to supervise all its affairs.

B. Art. 69. The Comptrollers, under direction of Finance Minister, to supervise all matters connected with operations of Bank, especially those matters relating to issue of bank-notes and discounting of domestic and foreign bills.

B. Art. 70. Comptrollers may at any time inquire into condition of Bank and inspect books and vaults.

B. Art. 71. Comptrollers may be present at and have a voice in meeting of Administrative Board, General Council of Bank, Discount Committee and General Meeting of shareholders, provided they have no right of vote.

B. Art. 87. The Government has the right to revise or amend the present By-laws of the Bank, whenever such revision or amendment is deemed necessary at the convenience of the Government.

B. Art. 89. Balance sheet and accounts to be presented to Finance Minister and published.

Election of Governors and Directors see B. Arts. 42 and 45, under Management.

For cases in which Government approval is necessary see :

B. Art. 14, under Capital.

B. Art. 36 (4), under Profits and Reserve Fund.

B. Art. 85, under Management.

B. Arts. 2, 3 and 5, under Note Issue.

B. Arts. 23 and 25, under General Business.

B. Art. 5, under Liquidation.

For State holding of capital see B. Art. 8, under Capital.

For Returns see Art. 8, under Note Issue, and B. Art. 91 and Art. 22, under Returns.

RETURNS

B. Art. 91. Daily returns showing amount of convertible bank - notes issued, amount of notes exchanged and increase or decrease in the reserve. Weekly returns stating average amount thereof, to be presented to Finance Minister in the one case daily and the other case weekly. Weekly returns to be published in official *Gazette*.

Art. 22. Monthly statement to be submitted by Bank to Finance Minister.

B. Art. 34. Administrative Board to draw up on 30th June and 31st December balance sheet to be submitted within twenty days to Auditors' Meeting.

TERM OF CHARTER AND LIQUIDATION

Term of Charter, 30 years, till October 1942.

B. Art. 5. Bank of Japan to be wound up should balance-

sheet show losses aggregating or exceeding one-half of capital. Except in this case, approval of Government is required for winding up after resolution passed by three-fourths of number of shareholders present at General Meeting and owning at least one-half of Bank's shares.

LATVIA

BANK OF LATVIA

CAPITAL, PROFITS AND RESERVE FUND

Art. 3.¹ The capital of the Bank consists of original capital fund of 10 million lats.

Reserve fund to cover eventual losses.

Art. 4. Of the net profits :

Twenty-five per cent to be added to the capital of the Bank until this reaches 25 million lats.

Ten per cent to the reserve fund.

Art. 5. If the reserve fund is insufficient to cover any losses the capital shall be used for the purpose, but if this should reduce the latter to less than 10 million lats it should be made good up to this amount from the resources of the State.

Art. 7. All balance of the net profits is paid to the State.

Council's share in net profits, see Article 64, under Management.

BRANCHES

See Art. 52, under Management.

MANAGEMENT

Art. 41. The Bank is administered by a Council and Board of Directors.

The Council consists of the President, his Deputy and eleven members, including the Director-General and a representative of the Minister of Finance.

The Executive consists of the Director-General, his Deputy and three Directors.

Art. 42. The members of the Council and Executive are chosen by the Ministry from candidates proposed by the Minister of Finance.

¹ Numbers refer to Articles of Statutes adopted 1923.

Art. 43. The President, his Deputy and members of the Council, excluding the representative of the Minister of Finance and the Director-General, are elected for three years, and are eligible for re-election.

Art. 44. The Council is independent in its decision. The Minister of Finance has the right of veto for three days after the decision has been submitted to him. If the Council persists in its decision the matter is submitted to the Ministry.

The functions of the Council are as follows :

Art. 47. It gives instructions concerning the internal activities of the Bank, which are published in the official *Journal*.

Art. 48. It discusses the proposals of the Board of Directors with regard to the policy of the Bank, accepts or rejects the proposals of the Board of Directors with regard to the amount of notes issued, ensures that the gold reserve is adequate and supervises the other securities employed as cover for the note issue.

Art. 49. It examines the monthly and annual balance sheets. The latter are submitted to the Minister of Finance for approval. The Council or their special attorneys examine at least once every three months the deposits, securities, etc., of the Bank, and ensure that they are in agreement with the books and balance sheets.

Art. 50. It determines the maximum amounts to be employed in discounts, loans and other operations.

Art. 51. The Council forms Discount Committees, the names of the members being submitted to the Minister of Finance.

Art. 52. In agreement with the Executive the Council decides as to the opening and closing of branches and agencies. The consent of the Minister of Finance is necessary for the liquidation of any branch.

Art. 54. The Director-General is the legal representative of the Bank. He directs all the affairs and operations of the Bank.

Art. 55. The Board of Directors (1) carries out the policy of the Bank according to the decisions of the Council, (2) sees to the increase of the gold reserve and that the notes are adequately covered, (3) directs the Bank's activities, both in the central organisation and the branches and agencies, (4) prepares the balance sheets for the Council.

Art. 57. Subject to confirmation by the Council, the Execu-

tive determines the rates of discount and interest, which must be published.

Art. 60. Attorneys for the Directors, the heads of the branches and agencies and their substitutes are appointed by the Minister of Finance from candidates proposed by the Board of Directors and recommended by the Council. Other officials are appointed by the Director-General.

Art. 61. The Director-General, his Deputy and the Directors may not hold any other salaried position. The Bank may not make any advances in any form to members of the Council or Board of Directors.

Art. 62. The Members of Council, Heads and Attorneys of branches and agencies may not hold positions in commercial firms of which the activities are inconsistent with the interests of the Bank.

Art. 64. Of the net profits, a share of $\frac{1}{2}$ per cent is payable to the Council, 2 per cent to the Board of Directors and 5 per cent to the employees, but such share must not exceed six months' salary.

NOTE ISSUE AND RESERVE

Art. 13. The Bank has the sole right of issue.

The proportion of notes which must be covered by gold or stable foreign currencies is as follows :

1. As regards the first 100 million lats—50 per cent.
2. In addition, when the issue exceeds 100 million lats, but does not exceed 150 million lats, 75 per cent of the excess over 100 million to be covered as above.
3. In addition, any issue in excess of 150 million to be wholly covered as above.

The balance of the notes to be covered by reliable short-term bills of exchange.

Art. 14. If the holder requires, the Bank must exchange notes against gold. Gold must be paid on demand against notes at the rate of 0.2903226 grammes fine gold per lat.

Art. 16. Notes are legal tender.

Art. 17. Weekly statements of notes in circulation and their cover to be published weekly in the official *Gazette*.

GENERAL BUSINESS

Art. 2. The objects of the Bank are :
to regulate the circulation of money ;
to assist commerce, industry and agriculture by granting
short-term credits ;
to facilitate payments at home and abroad ;
to carry out the operations of the Treasury.

Art. 19. The Bank may :

(1) discount bills of exchange and other securities of
fixed maturity ;

Bills of exchange must not be of more than three
months' maturity, they must arise out of commercial
transactions and bear at least two good signatures.
The consent of the Council is necessary for the
discount of bills of longer maturity.

(2) open credit accounts and make short-term advances ;

(3) accept deposits in cash or other values ;

(4) buy and sell bills of exchange, drafts, foreign and
other values ;

(5) supply letters of credit, carry out transfers and other
operations on commission ;

(6) carry out operations for account of State departments
free of charge.

Art. 24. The Bank may open credits and make short-term
loans against promissory notes bearing one signature only,
accepting as additional security :

(1) mortgages,

(2) agricultural or industrial products,

(3) other values.

Art. 25. Short-term loans may also be made against goods
not quickly perishable and easily realisable, or against transport
documents if such goods are in transit.

Art. 26. Loans must not exceed :

Seventy-five per cent of immovable property accepted as
security, and 60 per cent of goods or plant.

Art. 27. The Bank may accept as collateral on account of
private credit institutions, and on their guarantee, bills and
promissory notes with one signature given as security to those
institutions.

Art. 28. The Bank may only make advances against securities of the State or private parties with the consent of the Council, which shall determine the amount of the loan in relation to the value of the security.

Art. 31. The Bank may accept as deposits :

- (1) coin of the land or foreign values—whether for fixed term or not, paying simple or compound interest, or on special conditions ;
- (2) for safe-keeping, securities, money, documents, precious metals and other values.

Art. 32. The receipts of the Bank are free from stamp duty and are accepted as security at their face value by all departments of the State.

Art. 34. The Bank may buy and sell bills of exchange, drafts, certificates of merchandise, warrants, precious metals, cheques, foreign and other values, at its own establishments, on the Stock Exchange or abroad, and may issue drafts and cheques on its agents abroad on instructions from the Council of the Bank.

Art. 35. The Bank may carry out transfers of money in all places where it has branches or correspondents, and accept documents authorising cash payments.

Art. 37. With the consent of the Council the Bank may arrange the issue of loans for private or public undertakings.

Art. 38. The Bank may open branches and agencies at home and abroad and enter into relationships with banks and other establishments at home or abroad. The Council decides as to the opening of branches and agencies.

Art. 53. The Bank may only acquire immovable property for its own purposes and to a value not exceeding one-twenty-fifth of its capital. Sums drawn from the net profits may be used with the consent of the Ministry of Finance for amortisation.

RELATIONS WITH THE STATE

Art. 1. The Bank of Latvia is a State institution. The operations of the Bank and its solvency are guaranteed by the State.

Art. 6. The capital of the Bank or sums deposited with it cannot be used to cover the expenditure of the State.

Art. 7. The balance of net profits after deductions for capital and reserve funds is paid to the State.

Art. 66. Operations of Bank must be audited by a Commission of Supervision, comprising two representatives of the State Audit (Contrôle d'État) and one of the Ministry of Finance.

See also under Management for :

appointments by the State, Arts. 42 and 60 ;

representation of the Government on the Council, Art. 41 ;

suspensory veto of Government, Art. 44 ;

approval of annual balance sheet, Art. 49.

For State payments to Reserve Fund in event of losses, see Art. 5, under Capital, Profits and Reserve Fund.

For consent of Minister of Finances required for certain purposes, see Arts. 51 and 52, under Management, and Art. 53, under General Business.

RETURNS

Art. 65. The periodical statements and annual accounts are to be published.

Art. 17. Weekly statement of notes and cover to be published in official *Gazette*.

LITHUANIA

BANK OF LITHUANIA

PURPOSE OF THE BANK

Art. 1.¹ The Bank's functions are to regulate the circulation of money, to facilitate the payment of money in the country and abroad, to realise a stable and strong currency system and to encourage the growth of agriculture, commerce and industry.

CAPITAL

Art. 3. The Bank's capital stock is 12 million litas, consisting of 120,000 nominal shares of 100 litas.

By-law 4. The capital may be increased on decision of a general meeting, with agreement of the Minister of Finance, Commerce and Industry.

¹ Numbers refer to Articles of Act of August 1922.

Art. 6. The Lithuanian State, municipalities, companies, associations and individuals may be shareholders.

Foreigners may not own more than one-third of the capital stock.

PROFITS AND RESERVE FUND

Art. 5. Ten per cent of the annual net profit to be paid to the reserve fund until this equals half the capital stock.

The reserve fund is assigned :

- (1) to cover the Bank's losses ;
- (2) to make up the shareholders' dividend to 8 per cent.

If reserve fund is insufficient to cover losses, these are met from capital, which is replenished, on resolution of the general meeting, either by fresh contributions from shareholders or net profit of next year (By-law 13).

Art. 54. The annual net profit is divided as follows :

- (1) ten per cent to the reserve capital ;
- (2) a dividend up to 8 per cent to shareholders ;
- (3) from the remainder, 8 per cent to the Board of Directors and 2 per cent to members of the Advisory Board ;
- (4) from the remainder one-third to the State ;
- (5) from the remainder the shareholders' dividend is increased up to 12 per cent ;
- (6) of the remainder 50 per cent to the State, 50 per cent allotted by the general meeting at its discretion.

BRANCHES

Art. 2. The Bank may establish branches and agencies. The Minister of Finance, Commerce and Industry has the right to require the establishment of Bank agencies in any place, if the State Treasury or public interest should so demand.

MANAGEMENT

Art. 18. The Bank administration is vested in the Bank Governor and Directors.

Only Lithuanian citizens may be members of the Board of Directors.

The Bank Advisory Board supervises the work of the Board of Directors.

The Board of Directors and Advisory Board constitute the General Bank Advisory Board.

There is also a Discount Committee.

The Governors and Directors may not discharge any duties in other banks.

Board of Directors

Art. 19. The Bank Governor is appointed and dismissed by the President of the Republic on the recommendation of the Cabinet.

A substitute is appointed by the President of the Republic from among the Directors.

Art. 25. The Governor has the right to suspend the execution of the resolutions of the Board of Directors and Advisory Board. The question must then be submitted to the General Advisory Board, whose resolutions must be ratified by the Minister of Finance, Commerce and Industry.

Art. 26. The Directors are elected by the general meeting of shareholders from among their number for a term of three years. They shall be four in number (By-law 39).

Art. 27. The Board of Directors decides all Bank affairs other than those which by this law and the Bank By-laws are entrusted to other organs of the Bank.

Art. 28. The Board's functions include :

- (1) Fixing the conditions of discount and rate of interest, and the amount of credits on security of State paper or State guaranteed securities. Their decisions on these points to be ratified by the Bank Advisory Board.
- (2) Settling the remuneration of Bank employees.
- (3) Preparing the report for presentation to the General Meeting.

Advisory Board

Art. 30. The members of the Advisory Board are elected by the General Meeting of shareholders from among their number for a period of three years. Foreigners may participate in the Advisory Board in proportion to the share of capital stock held by them.

There shall be six members and three substitutes (By-law 44).

Art. 34. The duties of the Advisory Board are :

- (1) To ratify the estimate of expenses and balance sheet presented by the Board of Directors.
- (2) To ratify the conditions of discount fixed by the Board, the rate of interest and the amount of credits issued against State paper or other State-guaranteed securities.
- (3) To consider the proposals of the Board of Directors to amend or supplement the By-laws, to acquire immovable property and to write off bad debts.
- (4) To decide all other questions submitted by the Board of Directors.

Discount Committee

Art. 35. Members of the Discount Committee are elected by the General Advisory Board from among experts on commercial, industrial and economic affairs. They may be members of the Advisory Board.

Art. 36. Members are elected for two years, and are eligible for re-election.

Art. 37. The Discount Committee examines commercial obligations offered and advises the Board as to acceptance.

General Advisory Board

Art. 38. The General Advisory Board meets at least once a month to consider the Bank's general affairs.

Art. 39. It ratifies the regulations for the internal administration of the Bank and its branches and agencies.

Art. 40. It decides as to the necessity of opening or closing the Bank's branches and agencies.

Commission of Supervision

Art. 41. The Commission of Supervision is composed of three shareholders, elected by the general meeting for one year.

Art. 42. The Commission of Supervision has the right at any time to make an examination of the Bank's property and books.

At the end of each year it must verify the report and balance sheet, and submit its opinions thereon to the general meeting.

It has the right to demand the convening of a General Meeting in special cases.

General Meeting of Shareholders

Art. 43. The time and order of ordinary General Meeting are fixed by the Bank's By-laws. (It is held annually.)

Art. 44. Extraordinary General Meetings may be convened by the Board of Directors, or if :

- (1) The Advisory Board demands it.
- (2) If the Commission of Supervision demands it.
- (3) If the number of Bank Directors is reduced to half.
- (4) If shareholders possessing not less than one-twentieth of the shares demand it.

Art. 45. Shareholders possessing not less than four shares may attend and vote at the General Meeting. Every ten shares gives one vote, but no one person may have more votes than one-fifth of the Bank's capital affords.

Art. 49. Questions concerning an increase in the Bank's capital stock, additions or amendment of the By-laws and dismissal of Directors or members of the Advisory Board are decided at a shareholders' meeting, where holders of not less than one-half of the shares take part, by a majority of two-thirds of the votes.

Art. 51. Resolutions of the General Meeting must be ratified by the Minister of Finance, Commerce and Industry.

Art. 52. The General Meeting :

- (1) ratifies the Bank's annual reports ;
- (2) allots the net profits ;
- (3) elects directors, members of the Advisory Board and Commission of Supervision ;
- (4) determines the remuneration for members of the Board of Directors, Advisory Board, Discount Committee and Commission of Supervision ;
- (5) decides to acquire immovable property ;
- (6) considers proposals to amend or supplement the Bank's By-laws.

NOTE ISSUE AND RESERVE

Art. 11. The sole right of issue is granted to the Bank for a term of twenty years.

This term may be extended by legislation at the request of a General Meeting of shareholders.

Art. 12. Not less than one-third of the notes in circulation to be covered by gold and the residue by easily realisable securities.

Art. 13. The notes are legal tender and are accepted on a par with gold coin.

Art. 14. The Bank determines the form of denomination of the notes in agreement with the Minister of Finance, Commerce and Industry.

NOTE.—The Minister of Finance, Commerce and Industry fixes the procedure for the conversion of bank-notes into gold.

GENERAL BUSINESS

Art. 7 and B. 14. The Bank's operations are :

- (1) the purchase and sale of gold, silver and platinum, and the issue of loans on the security of the foregoing ;
- (2) the discounting, purchase and sale of bills of exchange, cheques, drafts, warrants and other commercial (including agricultural) obligations ;
- (3) to buy and sell bills of exchange, cheques and notes of foreign countries in which money is backed by metal ;
- (4) the issue of loans on the security of goods not quickly perishable, and on the guarantee of two reliable persons ;
- (5) the collection of money on commercial obligations and payment of accounts of third parties ;
- (6) the acceptance of sums on current account and fixed deposit ;
- (7) the acceptance of securities, precious metals and other valuables for safe keeping ;
- (8) the issue of advances for current account or for short term on the security of the values in (1), (2) and (3), or of State paper or other State-guaranteed securities. The extent and condition of such advances to be determined by the Board of Directors and ratified by the Bank Advisory Board ;
- (9) to support the loans of the State and municipalities (including their distribution on a commission basis) ;

- (10) to issue transfer cheques and letters of credit at home and abroad and to cash those of its correspondents ;
- (11) to conduct clearing-house operations.

The following conditions are laid down in the by-laws :

Loans against gold, silver or platinum are issued to not more than 90 per cent of their value ; on bills of exchange, drafts, cheques and bank-notes for not more than 70 per cent ; on State interest-bearing securities, goods, warrants and transport documents for not more than 60 per cent of their value.

Arts. 8 and 9. Bills of exchange, drafts, warrants and other commercial obligations may only be accepted for discount, provided :

- (1) the maturity is not more than three months ;
- (2) they bear three signatures.

In exceptional cases the Board of Directors in agreement with the Advisory Board may accept bills or commercial obligations of a maturity not exceeding six months, and commercial obligations bearing only two signatures.

Art. 16. The Bank may acquire public funds and other State-guaranteed securities to an amount not exceeding one-third of its capital stock. Immovable property may be acquired only for its own need and with the permission of the Minister of Finance, Commerce and Industry.

Art. 17. The Bank is forbidden to conduct operations not indicated in Article 7 above.

The Bank may not :

- (1) conclude loans for its own requirements ;
- (2) contract loans on mortgages or on security of shares of industrial companies ;
- (3) borrow money on or buy its own shares ;
- (4) participate directly or indirectly in industrial establishments or conduct commercial operations on its own account other than those specified in Article 7 ;
- (5) conduct any operations with the State which are not indicated in this law.

RELATIONS WITH THE STATE

Art. 10. All operations of the State Treasury and State Savings Banks may be confided to the Bank to carry out

independently of its own operations. Operations for the Treasury to be carried out gratis.

By-law 95. The Bank's capital, turnover and profit are immune from all taxation, either for needs of State or municipalities.

The agreement of the Minister of Finance, Commerce and Industry is required for certain purposes. See By-law 4, under Capital; Article 14, under Note Issue; Articles 25 and 51, under Management; Art. 16, under General Business.

For appointment of Governor by the President of the Republic see under Management, Article 19.

For Share in Profits see under Profits and Reserve Fund, Article 54.

For State and liquidation see Arts. 57 and 59, under Term of Charter and Liquidation.

For State and opening of branches see Article 2, under Branches.

See also Art. 17 (5), under General Business.

RETURNS

By-law 86. Annual balance sheet and profit and loss account are published.

Also not less frequently than once a month the Bank balance sheet is published according to prescribed form.

TERM OF PRIVILEGE AND LIQUIDATION

Term of privilege: see Art. 11, under Note Issue.

Liquidation

Art. 55. Should the Bank's capital stock be reduced by half, and should the General Meeting be unwilling to replenish it, the Bank's affairs to be liquidated.

Art. 56. In all other cases the Bank may be liquidated only on decision of a General Meeting representing half the shares and on a three-quarter majority of votes.

Art. 57. In case of liquidation the General Meeting appoints liquidators and determines procedure, subject to approval by the Minister of Finance, Commerce and Industry.

Art. 58. In case of liquidation the holders of bank-notes are

given a preferential right to receive payment from the Bank's assets.

Art. 59. In case of liquidation, under Arts. 55 or 56, Government has right to take over assets and liabilities at true value.

NETHERLANDS

NETHERLANDS BANK

CAPITAL

Art. 6.¹ Capital, guilders 20,000,000, fully paid up, in shares of 1000 guilders each, divisible on first issue, but not later, into one-half, one-quarter or one-eighth shares (S. 4).

Amount may be increased by law with approval of Bank.

PROFITS AND RESERVE FUND

Art. 8. The Bank shall form a Reserve Fund to the sum of one-quarter of its capital, intended, subject to 31 (b), to make good losses which may be incurred on capital. (Nothing will be added to this fund from profits when it reaches 25 per cent of capital (S. 42).)

Art. 9. With approval of Finance Minister, Bank may form special reserves, and each year when fixing balance sheet it will be determined, with approval of Finance Minister, whether and how far these reserves shall be maintained as such or be credited to profits of year.

Art. 13. Bank may invest Reserve Fund and one-fifth of share capital, according to rules laid down by combined meeting of Management and Commissaries. (Interest on investments is to be included in profits, appreciation or depreciation being credited or charged to reserve fund (Art. 32).)

Art. 31. (a) First charge on profits is $3\frac{1}{2}$ per cent on capital to Bank.

(b) If profits are less than $3\frac{1}{2}$ per cent deficit shall be taken from Reserve Fund, provided it is not reduced below 15 per cent of capital.

(c) If profits exceed $3\frac{1}{2}$ per cent on capital, 10 per cent goes to Reserve Fund, until it reaches amount specified in Art. 8;

¹ References are to Bank Act, 1919, and Statutes, the latter marked (S).

of remainder, 3-3½ per cent goes as bonus to Management, Advisory Committee and Commissaries, and of balance Bank receives one-quarter and State three-quarters, until Bank's share, apart from Reserves and bonus, amounts to 7 per cent of capital. If any balance remains Bank receives one-eighth and State seven-eighths.

(d) Share of State in profits will cease if :

(1) any other body than the Bank should be allowed to issue notes, or

(2) if State should resolve to issue notes.

(By virtue of special arrangement between the Bank and the State the currency notes issued by the State since August 1914 are not considered "notes" in the sense of this clause.)

BRANCHES

Art. 5. Branch at Rotterdam (Head Office, Amsterdam); elsewhere agencies may be established.

MANAGEMENT

Art. 24. Management consists of President, Secretary and not less than two Directors. Number of Directors to be fixed by combined meeting of Management and Commissaries.

Art. 25. President and Secretary are appointed by Crown for seven years, two names for each post being submitted by combined meeting of Management and Commissaries.

Directors are appointed by voting shareholders (who must be Netherlanders—Article 7) for five years from nomination list of three persons, prepared by combined meeting as above.

On proposal of combined meeting as above, President and Secretary may be suspended or dismissed by Crown; upon similar proposal, Directors may be dismissed by voting shareholders.

(Members of Management are eligible for re-election (S. 16).)

Art. 26. Combined meeting as above may appoint Deputy-Directors.

Advisory Committee

Art. 27. Advisory Committee consists of five persons, elected by voting shareholders from nomination of two persons for each vacancy, prepared by Board of Commissaries. Appoint-

ment is for five years, and holders are ineligible for immediate re-election.

Committee shall meet with Management at fixed periods, and shall be consulted on important matters. If there is a difference of opinion Board of Commissaries to be informed.

Commissaries

Art. 28, S. 26-28. Fifteen Commissaries are to be elected by voting shareholders for five years, one-fifth resigning annually and being eligible for re-election. They are entrusted with the supervision of the Management and the examination of the annual return.

They meet as may be necessary, and have right to demand information from Management and production of documents.

S. 40. The annual balance sheet is submitted for approval of Commissaries.

Combined Meeting of Management and Commissaries

S. 32. Combined meeting may be convened by President at any time. Royal Commissioner may attend and give advisory vote.

S. 34. Duties of combined meeting include :

- (1) preparing nomination list for selection of members of Management ;
- (2) fixing regulations for Crown approval ;
- (3) dealing with investment of Reserve Fund and one-fifth of capital ;
- (4) deciding to call extraordinary meeting of shareholders.

General Meeting

| | | |
|--------|---------------|---------------------------|
| S. 10. | 1 to 5 shares | entitle holder to 1 vote. |
| | 6 „ 10 | „ „ 2 votes. |
| | 11 „ 20 | „ „ 3 „ |
| | 21 „ 30 | „ „ 4 „ |
| | 31 „ 40 | „ „ 5 „ |
| | 41 and more | „ „ 6 „ |

A share for voting purposes is 1000 guilders.

Proxies are allowed. But under no conditions may one person return more than six votes.

Right to vote is exercised only by shareholders who are subjects of the Netherlands.

S. 37. Ordinary general meeting receives report of President on year's working, and deals with distribution of profits and with vacancies in Management, Commissaries and Advisory Committee, and other matters as may arise.

Royal Commissioner

See under Relations with State.

NOTE ISSUE AND RESERVE

Art. 1. No Bank of Issue may be established, and no foreign Bank of Issue may have its notes brought into circulation, otherwise than by virtue of a special Act.

Art. 17. Shape and size of notes to be announced by Bank. Notes for less than 10 guilders not to be issued.

Art. 18. Notes are free of stamp duty. They are payable at all offices and agencies on demand, except that in case of agencies time may be allowed for obtaining specie from Head Office.

Art. 19. In case of war or danger of war obligation to pay may be suspended by Order-in-Council.

Art. 23. Proportion of bank-notes, bank drafts and balances of accounts current, which must be covered by coin or bullion, shall be laid down by Royal Decree passed on recommendation of Management and shall be published. This decree may be changed as necessary from time to time.¹

GENERAL BUSINESS

Art. 11. 1. To issue notes and to sell drafts on its offices and cheques on its correspondents.

2. To discount (a) bills of exchange and promissory notes bearing signature of at least two parties, with currency not

¹ Before the outbreak of the European War the prescribed percentage was 40 per cent, when it was changed by decree of 31st July 1914 to 20 per cent to give the Bank greater elasticity. The Bank only availed itself of this concession for a brief period in 1914, and in recent years has maintained a ratio substantially above 40 per cent. (Dierschke and Müller, *Die Notenbanken der Welt*, volume 1, page 307.)

longer than required by trade custom ; (b) debenture bonds, redeemable within six months and guaranteed by discounter.

3. To buy and sell telegraphic transfers, cheques, bills and other commercial paper, payable abroad.

4. To advance on securities, goods, warrants, coin, bullion and paper eligible for discount or purchase under 2 and 3.

5. To deal in precious metals.

6. To keep current accounts, effect transfers and clearances, and collect moneys on behalf of clients.

7. To take custody of securities, valuables, etc.

8. To perform, with Government approval, in public interest other business than that specified above.

Bank may purchase, at a sale under execution, securities or goods, pledged with Bank, for subsequent realisation.

Art. 12. Bank may not make unsecured advances.

RELATIONS WITH THE STATE

Art. 14. The Bank shall act, without charge, as bankers to State.

Art. 16. As an exception to Art. 12 above, Bank is bound, when Finance Minister deems necessary, to advance moneys to Treasury on current account against Treasury notes, the issue or pledging of which is permitted by law. These advances shall not carry interest, but may not at any time exceed guilders 15 million. This obligation will cease :

(1) if State resolves to issue Government notes.

(By virtue of special arrangement between the Bank and the State the currency notes issued by the State since August 1914 are not considered "notes" in the sense of this clause);

(2) as soon and as long as metallic surplus of Bank falls below guilders 10 million.

Royal Commissioner

Art. 29. Royal Commissioner appointed by Crown and paid by State will supervise transactions of Bank on behalf of Government. He may attend all meetings of shareholders and Commissaries with advisory vote.

Management is bound to supply needful information.

For State share in Profits see Art. 31, under Profits and Reserve Fund.

For State Appointments see Art. 25, under Management.

See also Art. 9, under Profits and Reserve Fund (Formation of Special Reserves).

For State and Liquidation, Art. 33, under Liquidation.

RETURNS

Art. 30. Bank is to publish weekly a return in form to be approved by Government.

TERM OF CHARTER AND LIQUIDATION

Art. 2. Term of Charter, until 31st March 1934.

Period is to be considered to have been extended for one year after this term or any other term for which it is extended, unless notice to the contrary is given either by Government or Bank. The right of issue may not be terminated before expiry of five years from 1st April, after which notice is given.

Art. 33. If right of issue is not extended, and obligatory reserve exceeds corresponding figure of 1889, half of the excess goes to State and half to Bank.

Art. 34. If right of issue is not extended, property and furniture will be valued, and value will be adjusted with figures in balance sheet through profit and loss account of final year.

NORWAY

NORGES BANK

CAPITAL

Art. 2.¹ Capital, 35 million kroner, which may be increased to 50 million on the decision of the Supervisory Council and the Board of Directors.

Profits realised from issues of stock at a price above par are placed to the reserve.

Art. 3. The holdings of stock may not be for amounts under 100 kroner.

¹ Numbers refer to the Articles of the codified laws governing the Norges Bank from *Scandinavian Banking Laws*, published by Columbia University Press, New York, 1926.

PROFITS AND RESERVE FUND

Art. 39. From the profits of the year shall be deducted :

- (a) All general charges and expenses. The expense of the issue of bank-notes and of the construction of buildings may be distributed over a period up to five years.
- (b) Irrecoverable accounts.
- (c) The sum considered necessary as provisions against doubtful credits.

Art. 40. The distribution of the profits shall be as follows :

- (a) Six per cent of nominal capital stock to the stockholders.
- (b) Up to 10 per cent of the remainder to the reserve fund, if this is less than two-fifths of the capital.
- (c) Half of the balance to the State and half to the stockholders, until the total dividend equals 9 per cent.
- (d) Of the remainder, four-fifths to the State and one-fifth to the stockholders.

The portion of the profits paid to stockholders which does not constitute one-tenth of 1 per cent shall be paid to a dividend regulation fund, which shall not exceed one-twentieth of the original capital.

If the dividend which is paid to the stockholders exceeds 9 per cent, the Supervisory Council may decide that the surplus shall be carried to the dividend regulation fund, entirely or in part.

An amount from this fund may be used on decision of the Supervisory Council to augment the dividends, but not beyond 8 per cent.

If the profits augmented by supplement from the dividend fund are not sufficient to pay a dividend of 6 per cent, the amount may be made up from the reserve fund, provided this is not reduced to less than one-third of the share capital.

Art. 41. In case of insufficiency of profits to cover losses and provide for doubtful credits deficiency to be made up by a draft on the reserve fund.

BRANCHES

Art. 13. Branch offices may be established.

MANAGEMENT

Art. 20. At the head of the Bank is a Supervisory Council of fifteen members. The management is carried out by a Board of Directors of five members. The Board of Management of each Branch Office has three members.

Method of Appointment

Art. 21. The members of the Supervisory Council are appointed for six years by the Storting. In addition, seven substitutes are elected for three years.

Art. 22. The President (Governor) and Vice-President (Vice-Governor) of the Board of Directors are nominated by the King, after the Supervisory Council has had opportunity to express itself, with the power of dismissal.

They may not hold any other remunerative appointment nor carry on any commercial, industrial or banking business.

The other directors are elected by the Storting for a term of six years.

Art. 23. The members of the Board of Management of the branches are elected for terms of six years by the Storting. They may be suspended by the Supervisory Council pending a final decision by the Storting.

Supervisory Council

Art. 26. The Supervisory Council elects its President and Vice-President annually. It meets quarterly and as often besides as is deemed necessary. It may require the Board of Directors to be present at its meetings. On the other hand, the Board of Directors have the right to be present unless the Council on special occasions rule otherwise.

Art. 27. Powers of the Supervisory Council include the following :

To settle the Statutes and regulations for internal government of the Bank.

To define the duties of the President and Vice-President and other members of the Board of Directors.

To present proposals to the Storting regarding salaries of the President of the Council, the elected Directors and

members of the Board of Management of the Branch Offices.

To determine the salaries and pensions of employees and officers of the Bank, to determine their election and dismissal on recommendation of the Board of Directors or Boards of Management.

To decide in conjunction with the Board of Directors on the establishment or elimination of branch offices.

To determine by agreement with the Board of Directors the amount of capital to be placed at the disposal of each Branch Office for loans.

To examine and verify at least once every three months the records of the Board of Directors and of the Branches, the deposits in the Bank, the cash balances and other departments of the Bank.

To have the books audited and approve the accounts.

To decide on the distribution of profits.

Board of Directors and Management

Art. 28. The Board of Directors shall meet every day.

It is bound to administer all funds of the Bank and to see that all the business of the Bank is transacted in accordance with the law and the decisions of the Supervisory Council.

Art. 29. The Board of Management of each Branch shall elect a President annually.

The operations managed by the branch offices are identical with those of the main office.

Art. 32. No member of the Government may act as member of the Supervisory Council or Board of Directors or Branch Management. No director or member of the Branch management of another bank may, without the consent of the Supervisory Council, occupy any of the above posts in the Bank of Norway.

NOTE ISSUE AND RESERVE

Art. 6. The Bank has the exclusive right of note issue. The notes are legal tender as long as the Bank is redeeming its notes in gold coin on demand.

Art. 7. In the case of peculiarly menacing circumstances the King may decide that the obligation on the Bank to redeem

its notes should be suspended. On such suspension they do not cease to be legal tender.¹

Art. 8. The notes are for 1000, 500, 100, 50, 10, 5 kroner.

Art. 9. Notes may be issued to a sum of 250 million kroner in excess of the gold reserve.

The reserve consists of gold coined or in bullion in the vaults of the Bank or deposited to its account with the Mint.

Art. 10. In case of the most unusual circumstances, such as war, menace of war or a serious financial crisis, the King may, with the subsequent approval of the Storting, authorise the Bank to issue additional notes.

The Bank is taxed on the additional issue in circulation at the time of each publication of its financial statement at a rate of interest of 1 per cent below the discount rate of the Bank at the time.

Art. 11. If the Bank exceeds its authorised issue, it must immediately inform the proper Department, furnishing a report on the cause, and it shall be taxed at a rate of interest corresponding to the discount rate. The tax shall increase $\frac{1}{2}$ per cent for each month the excess continues beyond the end of the first month.

Art. 14. The Bank is bound to deliver notes against current gold coin at the Head Office and branches. It is likewise bound to buy gold bar against the issue of notes at the rate of 2480 Kr. per kilogram of fine gold, subject to a coinage charge of one-quarter of 1 per cent. The exchange of gold against notes shall take place at the Head Office and at branch offices specially designated.

GENERAL BUSINESS

Art. 1. The Bank is a private joint-stock company authorised to function as a bank for loans, clearings, deposits and note issues.

Art. 15. The Bank may :

- (a) Make advances against security for a fixed term not exceeding six months. Stock of the Bank may not be accepted as security.
- (b) Discount bills of exchange and "vekselobligationer"²

¹ Under edict of March 1920 the Bank was released of its obligation to redeem its notes in gold.

² The vekselobligation is an advance based on personal guarantee, and is repaid in instalments.

payable within the country, with maturity of not more than six months.

- (c) Open current accounts for a period of one year at most on security or on registry of mortgage.
- (d) Buy and sell gold and silver bullion.
- (e) Buy and sell bills of exchange payable in foreign countries.
- (f) Invest its capital in the Stocks of the Norwegian State, the bonds of the Mortgage Bank, as well as in other bonds, Norwegian or foreign, productive of interest, quoted on foreign bourses and readily saleable. The profits and expenses resulting from these operations are entered to the account of the reserve fund.

The Bank may also invest a portion of its funds in claims on foreign banks, with which it may also deposit gold, coined or otherwise.

Art. 16. The Bank receives gratuitously sums for deposit or current accounts.

Arts. 17 and 18. The Bank may in consideration of commission :

- (a) Accept for deposit objects of value and securities on which it may undertake to collect dividends, and effect the redemption of securities which have matured.
- (b) Purchase or sell transferable securities for account of third parties who have previously placed funds or securities with the Bank.
- (c) Collect debts and effect the transfer to the branch offices of the sums collected.

[For transactions carried on for State see Relations with State.]

RELATIONS WITH THE STATE

Art. 5. The Bank is free from all imposts.

Art. 19. The Bank is bound to carry out the following transactions for the State without charge :

- (a) Receive the revenue of and take charge of the payments of the State and the Public Treasury, and effect all the movements of the funds of the Treasury without, however, having to make loans.

- (b) Receive and manage the securities and other objects of value belonging to the State.
- (c) Effect the exchange of fractional money which is incumbent upon the Treasury.

Art. 36. The Bank must submit an annual report to the Storting and present all the accounts, books and securities to the inspection of delegates from the Storting.

For State Power of Appointment see Arts. 21, 22 and 23, under Management.

For State Share in Profits see Art. 40 (c) and (d) under Profits and Reserve Fund.

RETURNS

Art. 37. Financial statements shall be prepared and published at least twice a month.¹

POLAND

BANK OF POLAND

PURPOSE OF THE BANK

Art. 1.² The Bank established in order to regulate the circulation of money and to facilitate credit.

(Under the reform programme of October 1927 the Bank is charged to exert all its efforts to ensure the permanent stability of the zloty.)

CAPITAL

Art. 4. 100 million zloty in shares of 100 zloty each. The capital can be increased by decision of the General Meeting with the consent of the Minister of Finance (Art. 12).

(Under the programme for the stabilisation of the zloty issued in October 1927 the Bank's capital is to be increased to 150 million zloty, the new shares being subscribed by the Government in the first instance with a view to sale to the public thereafter. While held by the Government these shares carry no voting rights.)

PROFITS AND RESERVE FUND

Art. 75. Net profits distributed as follows :

- (1) ten per cent to reserve fund until it equals 20 per cent

¹ Extracts of accounts are issued weekly and the balance sheet for the Bank is published monthly.

² Numbers refer to Articles of Association promulgated 1924.

of the capital ; thereafter 5 per cent until it equals 50 per cent of the capital ;

- (2) from remainder, 8 per cent to shareholders ;
- (3) of the balance, provided that the profit, less payments to reserve, does not exceed 12 per cent of share capital, half of the balance to the shareholders, half to the State.

If the profit, less payments to reserve, is in excess of 12 per cent, one-third of the balance to shareholders and two-thirds to Treasury.

- (4) if the net profit is insufficient to enable a dividend of 4 per cent to be declared and if the reserve fund exceeds 10 per cent of the capital, the reserve may be used to bring the dividend up to 4 per cent.

Art. 76. The reserve fund to be used to cover losses and amortisations which cannot be covered out of profit and to make up dividends to 4 per cent.

It can only be invested in Government bonds.

Art. 77. Shares and dividends are tax free for ten years.

BRANCHES

Art. 3. The Bank may, with the consent of the Minister of Finance, establish (and close) branch offices and agencies.

MANAGEMENT

General Meeting

Art. 12. The following matters come under the competence of the General Meeting of shareholders :

- (a) adoption of the annual report and balance sheet ;
- (b) election of members for the Council and Auditors' Committee ;
- (c) increase of share capital ;
- (d) other amendments of Articles of Association ;
- (e) winding up of Bank ;
- (f) motions put by the Council.

The approval of the Minister of Finance is necessary for (c), and of the Legislature for (d) and (e).

Art. 13. The ordinary General Meeting is held once a year, not later than March.

Extraordinary meetings can be convened :

- (a) on the decision of the Council ;
- (b) at the request of the President of the Bank ;
- (c) at the request of shareholders representing at least one-fourth of the share capital.

Arts. 17-18. Voting by proxy is allowed. Every twenty-five shares give right to one vote, but no shareholder may have more than 500 votes, either on his own account or as proxy including his own votes. No shareholder may have more than one proxy.

Art. 20. Representative of Treasury as shareholder will be designated by Finance Minister.

Council

Art. 25. The Council consists of a President and Vice-President appointed by the President of the Republic, and twelve members with three substitutes elected by the General Meeting.¹

Art. 26. Members are elected for three years and are eligible for re-election.

The Minister of Finance has the right to veto the election for any member or substitute within three days after the election.

Art. 29. The following are ineligible as members of Council : deputies, senators, civil servants and members of armed forces on active service.

Art. 30. Meetings are held at least once a month.

Art. 24. The Council directs the policy of the Bank in general and supervises the work of the executive.

In particular it deals with the following :

- (a) appointment of General Manager and other members of Board of Directors and presentation of their names to the Minister of Finance ;
- (b) regulations concerning the duties and salaries of the Board of Directors ;
- (c) appointment of members of Discount Committees ;
- (d) confirmation of the budget ;
- (e) fixing discount, interest and commission rates ;

¹ Under the stabilisation programme of October 1927 an American expert is to be nominated by the Bank to its Council for three years. He will be charged with special responsibilities in relation to the reform scheme.

- (f) purchase and sale of real property ;
- (g) presentation of annual reports to the General Meeting.

President

Arts. 35 and 37. The President of the Bank is appointed by President of the Republic on recommendation of Council of Ministers for five years. Eligible for reappointment. On recommendation of Council of Ministers, President may be removed by the President of the Republic if he fails in his duties.

He may not be a member of the Diet or Senate or hold a salaried position, whether under the Government or municipality or privately, nor may he be a member of the managing or supervising bodies of or partner in any undertaking.

Art. 40. Similar qualifications for Vice-President.

Art. 38. The President of the Bank has the right to suspend the carrying out of any decision of the Council if he considers it contrary to the laws of the country, the Articles of Association of the Bank or the interest of the State.

The suspended decision will then be submitted to the Minister of Finance, and will not be carried out if within three days he confirms the President's veto.

The President may attend the meetings of the Board of Directors in an advisory capacity and can prevent the carrying out of any decision not in accordance with the fundamental aims of the Bank pending approval by the Council.

Art. 39. He submits a monthly report on the Bank's affairs to the Minister of Finance.

Art. 41. The President and Vice-President take an oath before the President of the Republic that they will carry out their duties in accordance with the Articles of Association of the Bank.

Board of Directors

Art. 42. The Board of Directors acts as executive of the Bank. It consists of the General Manager and Directors appointed by the Council and approved by Finance Minister. The number is determined by the Council.

The members may not be deputies or members of the Senate or hold other salaried post.

Art. 43. The General Manager or his substitute attends the Council in an advisory capacity.

Auditing Committee

Art. 45. The General Meeting elects from its number five auditors and three substitutes to examine the books of the Bank after the close of the financial year and to report to the General Meeting. The Auditing Committee may also investigate any particular transaction of the Bank after communicating with President. They may demand any information required.

Discount Committee

Art. 61. Bills presented for discount are examined by Discount Committee presided over by the Branch Managers of the Bank.

The Chairman may reject bills or securities approved by the Committee, the matter to be referred to the Board of Directors if the Committee desire it.

Art. 62. The members of the Discount Committee are appointed by the Council from persons conversant with the agriculture, industry and trade in the district after consultation with the business associations of the district.

Term of appointment three years; eligible for re-election. No member is allowed to express an opinion on a bill in which he is interested.

Members take an oath before the President of the Bank.

NOTE ISSUE AND RESERVE

Art. 46. Bank has sole right of issue.

Notes legal tender.

The privilege may be extended beyond 1944 by special Act of Parliament.

Art. 47. The Bank after a date to be fixed by the Council of Ministers will be obliged to redeem the notes in gold on demand.

(On the coming into force of the stabilisation programme of October 1927 the notes are to be legally repayable at a fixed rate in gold or gold exchange. The Bank will consider with the foreign expert when convertibility into gold can be introduced.)

Art. 48. Denomination of notes to be approved by Minister of Finance.

Art. 51. Notes in circulation to be covered to the amount of at least 30 per cent¹ by :

- (a) gold in coin and bars ;
- (b) foreign currencies not liable to serious fluctuation ;
- (c) bills, cheques and bank balance in foreign currencies with banks of unquestioned solvency.

Items held under (b) and (c) to be calculated at their gold value after deduction of the Bank's liabilities in foreign currencies.

The Council determines the foreign currencies and bills which may be used as cover.

From the date of convertibility of the notes into gold only such currencies as are redeemable abroad in gold on demand may be included.

Art. 52. The balance of the note circulation to be covered by :

- (a) bills of exchanges and other securities as in Art. 55 (a) (see under General Business) ;
- (b) silver at its gold value ;
- (c) Polish silver coin and subsidiary coin in base metals to an amount not exceeding 5 per cent of the total note issue ;
- (d) Non-interest-bearing Treasury obligations up to 50 million zloty on account of loan granted by the Bank for the duration of the note-issue privilege.

Art. 53. The note issue is taxed as follows, the tax to be determined every ten days :

If the reserve held in accordance with Art. 51

| | | | | |
|--------------|-------------|------------|--------|------------------|
| exceeds | 50 % | tax equals | 1/72 % | of notes issued. |
| lies between | 40 % - 50 % | „ | 1/54 % | „ „ |
| „ | 30 % - 40 % | „ | 1/36 % | „ „ |

Art. 54. The Bank buys gold against notes on demand at the statutory relation, subject to a deduction for minting and other costs.

¹ Under the stabilisation programme of October 1927 the Bank's reserve proportion is to be raised to 40 per cent of its demand obligations and notes combined. Three-quarters of this reserve is to be in gold coin or bullion, of which two-thirds at least must be held in the Bank's vaults, the balance being earmarked abroad on the Bank's account.

GENERAL BUSINESS

Art. 55. The operations of the Banks are as follows :

- (a) Discounting bills of exchange, warrants, and other paper resulting from commercial transactions, of a maturity not exceeding three months and payable in centres where there is a branch or agency of the Bank. They must bear three, or in exceptional cases, two signatures (Art. 58); at least two signatures are needed for warrants. State and Municipal securities and mortgages may also be discounted if the maturity does not exceed three months (Art. 60).
- (b) Granting loans against (Art. 63):
 - (i.) gold or silver;
 - (ii.) bonds bearing fixed interest listed on the Polish Stock Exchanges;
 - (iii.) bills of exchange, with maturity not exceeding six months, payable in Poland or abroad, and drawn in Polish or foreign currencies, but otherwise complying with conditions of eligibility for discount;
 - (iv.) foreign currencies not subject to serious fluctuations and bills, etc., in foreign currencies with banks of unquestioned solvency.

The rate of interest on loans must be at least 1 per cent above rate of discount (Art. 65).
(On the introduction of the proposed reforms of October 1927, the Bank will cease to grant loans against foreign drafts.)
- (c) purchase and sale of gold and silver;
- (d) dealing in foreign currencies and bills, keeping of accounts abroad and the utilisation of credits necessary for these operations;
- (e) opening of deposit and current accounts. Interest-bearing deposits may be accepted with the approval of the Minister of Finance (Art. 69);
- (f) sale of cheques and money orders drawn on the branch offices;

- (g) collection of bills of exchange and other instruments ;
- (h) receipts of deposits for safe keeping ;
- (i) all other banking operations for account of its customers.

Art. 56. The Bank may not purchase shares (except those of undertakings entrusted with the printing of bank-notes and other bank documents).

Art. 57. The Bank may not purchase real estate except for its own requirements. Mortgages and other rights may be taken over for the purpose of covering doubtful debts, but must be disposed of within one year, subject to extension of period by President of Bank.

The Bank may neither grant credits against its own shares, nor purchase them for its own account.

RELATIONS WITH THE STATE

Art. 39. The Minister of Finance is empowered to appoint a Delegate who may attend the meetings of the Council and Board of Directors in an advisory capacity and demand any information he requires from the Management.

Art. 70. The Bank must accept and effect payment on account of the Treasury free of charge. It may act as fiscal agent for the Treasury, provided that the indebtedness of the Government to the Bank is not thereby increased.

Art. 85. The estate and revenue of the Bank are free from taxation with the exception of the tax on land and buildings.

Art. 90. Disputes between the Government and the Bank arising out of the application Articles of Association to be decided by a Committee of Arbitrators, consisting of four members, two appointed by the Government and two by the Council of the Bank. The President of the Supreme Court to act as Chairman.

(Under the stabilisation programme of October 1927 the State gives the following undertakings :

1. To extinguish the floating debt of zloty 25 million, and to raise no loan from the Bank other than the existing debt of zloty 25 million.

2. To deposit a Treasury reserve of zloty 75 million at the Bank to be drawn upon under stated conditions. Drafts on this reserve are to be made good within six months, and the reserve

is neither to be reduced or abolished except with the agreement of the Bank and the foreign expert on the Board.

3. To deposit with the Bank (a) zloty 140 million gold, and (b) silver for the issue of zloty 140 million of token coinage in order that the State paper in circulation amounting to zloty 280 million may be withdrawn.

4. Not to issue any subsidiary or other coinage apart from the above zloty 140 million and zloty 180 million actually in circulation.)

For State power of appointment see Arts. 25, 26, 35, 37 and 42, under Management.

For State powers in case of disagreement between Council and President see Art. 38, under Management.

For State delegate to General Meeting see Art. 20, under Management.

For Share in profits see Art. 75, under Profits and Reserve.

For State and Liquidation see section on Liquidation below.

For cases in which Government approval is necessary see :

Art. 12, under Management.

Art. 48, under Note Issue.

Art. 55 (e), under General Business.

Art. 3, under Branches.

RETURNS

Art. 78. The following must be published in the official *Gazette* :

(a) Annual balance sheet and profit and loss account, not less than a fortnight before the General Meeting.

(b) Summarised balance sheets in prescribed form, not less than seven days after the expiration of each ten days.

Art. 74. Of the overhead charges only expenses connected with the issue of bank-notes can be spread over a number of years.

TERM OF CHARTER AND LIQUIDATION

Art. 46. Term of Charter for note issue till 31st December 1944.

Art. 79. The Bank may be wound up on the resolution of a two-thirds majority of a specially convened General Meeting. The confirmation of the Legislature is required if the Bank is liquidated before the expiration of its charter.

Art. 80. In the event of expiration of the Bank's privilege or earlier liquidation, the Treasury may take over the Bank by Act of Parliament at its balance-sheet valuation.

Art. 82. Should the Government not exercise its right at the expiration of the privilege, the General Meeting may decide to continue the operations of the Bank, apart from note issue and other special privileges.

RUSSIA

STATE BANK OF THE RUSSIAN SOCIALIST FEDERAL SOVIET REPUBLIC

CAPITAL

§ 3.¹ Initial capital, two thousand milliard paper roubles,² assigned as a budgetary grant from the State Exchequer.

PROFITS AND RESERVE FUND

§ 4. Reserve capital to be formed from assignments from profits. Its amount is not limited.

If in any year the loss exceeds the total of the reserve capital the deficit will be carried over to the special account of the People's Commissariat of Finances, to be covered out of the State Budget.

§ 46. The net profits are distributed as follows :

- fifty per cent to reserve capital ;
- not exceeding 20 per cent for the improvement of the standard of life of the personnel of the Bank ;
- balance to the State.

¹ Numbers refer to Articles of Statutes adopted 1921. Translation in Dierschke and Müller, *Die Notenbanken der Welt*.

² Equivalent at that time to about 15 million dollars. The capital was fixed subsequently in terms of chervonetz (£1 = ·946 ch.) at 5 million chervonetz, the amount being raised in 1925 to ch. 10 million, and in 1927 to ch. 25 million.

MANAGEMENT

§ 5. The general supervision of the Bank is vested in the People's Commissary of Finances. In particular, he directs the general policy of the Bank, approves all the general rules for operations of the Bank, as well as the rate of interest and commission to be paid, exercises a general supervision over the operations of the Bank, ratifies the annual estimates of expenditure and annual reports and balance sheets.

Board of Directors

§ 6. The management to rest with Board of Directors.

§ 7. The Chairman of the Board of Directors is appointed by the Council of the People's Commissaries on the recommendation of the People's Commissary of Finances.

§ 8. The Board of Directors are charged with issuing of instructions and orders in connection with the operation of the Bank, fixing rates of interest, the opening of provincial offices, branches and agencies, wherever considered desirable, within the boundaries of the Russian Federation or abroad, subject to the sanction of the Commissary of Finances, the drafting of proposals concerning the alteration of provisions in the statutes and all matters connected with the internal working of the Bank.

§ 11. Meetings of the Board are convened by the Chairman as required.

Should the Chairman disagree with a decision of the majority, the question is referred to the People's Commissary of Finances for decision.

Local Organisations

§ 12. The District Offices, Branch Offices and Agencies are, as regards their organisation and administration, subordinate to the Chief of the respective local departments of the Commissariat of Finances.

Loan and Discount Committees

§ 23. A Loan and Discount Committee will be attached to the Board of Directors and each District and Branch Office.

§ 24. The Loan and Discount Committee attached to the Board of Directors consists of the Chairman and one member of the Board, two representatives each of the Supreme Economic

Council and the People's Commissariat of Agriculture, one representative each of the People's Commissariats of Finances, of Foreign Trade and of Control, the Central Union of Consumers Societies, the All-Russian Agricultural Co-operative Union and the Amalgamated Industrial Co-operative Society, as well as of representatives of trade and industry invited by the Chairman of the Board of Directors and approved by the Commissary of Finances.

The Chairman has the right to invite competent persons to act in an advisory capacity.

§§ 25, 26. The Loan and Discount Committees attached to the District and Branch Offices consist of the Manager of the District or Branch Office, as Chairman, the Sub-managers in the case of District Offices, and of one representative each of the local institutions, departments and co-operative unions enumerated in the preceding paragraph, as well as of competent persons, invited by the Chairman to act in an advisory capacity.

Auditing Committees

§ 27. The Commissary of Finances appoints annually a Committee to audit the accounts.

§ 28. The Board and the local organisations will place at the disposal of the auditing committee all the necessary information.

NOTE ISSUE AND RESERVE

The Bank was given the right of note issue by decree of 4th November 1922 as follows :

1. The State Bank is empowered to issue bank-notes.
2. The bank-notes are to be equivalent to 1, 2, 3, 5, 10, 25 and 50 chervonetz.
3. These bank-notes must be fully secured as to a minimum of one-fourth of their value by gold or precious metals or stable foreign currency, and as to the remainder by easily realisable goods, short-term bills of exchange or other securities.
4. The amount of notes put into circulation, and the nature of the security, are to be published by the Bank twice monthly.
5. The date from which the notes may be exchanged for gold shall be fixed by a special Government order.
6. Bank-notes will be accepted at their face value in payment

of State taxes and dues (customs, railway fares, etc.), in all cases where payments must be paid by law in gold.

7. The State Bank will have the right to demand that the redemption of loans issued in bank-notes, and in general the redemption of liabilities expressed in bank-notes, shall also be made in bank-notes.

8. Loans in bank-notes made to the Commissariat of Finances are to be secured by precious metals as to a minimum of 50 per cent of the face value and as to the remainder by interest-bearing bonds of the Commissariat of Finances.

9. Bank-notes may be quoted on all the stock exchanges of the Russian Socialist Federation of Soviet Republics.

The notes are legal tender for payment of all State and local dues.

The operations of issue are controlled by a separate department under a Board, composed of two representatives of the Bank and three members appointed by the Stock Exchange, the State Control Department and the Commissariat of Finance. The cover for the note issue must be kept in the Treasury of the Issue Department. Gold and foreign currency held abroad for the account of the State Bank cannot therefore reckon as cover for the note issue.

The State maintains the right to issue gold rouble notes. The amount of the State issue is regulated on the first day of each month, and may not exceed half the circulation of chervonetz notes.

GENERAL BUSINESS

§ 29. The State Bank is to carry on business required for the development of industry and commerce by granting credits against security and for purposes economically expedient to institutions and undertakings of the State industries, to co-operative and other organisations, and to private enterprises as well as to agricultural establishments and peasant industries.

In particular the Bank is to conduct the following operations :

1. The granting of credits for the promotion of productive and constructive enterprises based on estimates and plans prepared by the borrower and approved by the Bank. Such credits to be granted against or without collateral security in the form of secured overdrafts.

The People's Commissary of Finances to have the right of

determining the maximum size of such credits to be granted to any individual borrower by the Board of Directors.

These credits will only be granted to such Government undertakings as are not financed by budget grants.

2. The granting of credits at call (secured overdrafts) against the following security: goods in warehouses, way-bills and shipping documents, bills of exchange and other promissory notes of a maturity not exceeding six months. The total amount of the credit not to exceed 75 per cent of the market value of the goods or notes.

3. The granting of credits at call against the pledging of foreign bonds and stocks, currency, bullion, drafts and foreign bills of exchange up to 60 per cent of the respective stock exchange value of the bonds and stock, 90 per cent of the internal legal value of the metal in weight and 75 per cent of the rate of exchange value of the remaining securities on conditions stipulated in 2, and in accordance with instructions of the People's Commissary of Finances.

4. The granting of fixed term loans against the pledging of any of the securities enumerated in 2 and 3 in similar proportions of their value for a period not exceeding three months and under the conditions laid down in parts 2 and 3.

5. The discounting of bills of exchange and promissory notes falling due within six months from the day of discount.

6. The purchase and sale on commission of goods, the trading in which is permitted by the Government, receiving in advance the price in full or in part, but in the proportion stipulated in 2 and 3, and on condition of final settlement taking place immediately on completion of the transaction.

7. The buying and selling for its own account of foreign securities, drafts, foreign bills of exchange and precious metals, as permitted by law, and in accordance with the instructions of the People's Commissary of Finances, provided that not more than one-third of the capital of the Bank be expended on these operations.

8. The opening of credit against forwarding documents, receiving in advance full or partial cover, and advancing the balance under terms as previously stated, and on condition of final settlement taking place immediately on arrival of the documents.

9. The issuing of transfers and letters of credit on all places within the Russian Socialist Federal Soviet Republic and abroad, where Branch Offices of the Bank are in existence, or the Bank has correspondents.

10. The collection on commission of bills of exchange, promissory notes, foreign drafts, warehouse and transit documents and other documents and valuables and the effecting of all kinds of payments by order of its clients, provided the amount of such payments has been received in advance.

11. The receiving and paying out of deposits, without restriction of amount on current account, for a fixed period or for an indefinite period.

12. The receiving into safe custody of articles for periods not exceeding five years.

§ 32. For the purpose of transfers, commission and other operations, the Bank may enter into relations with foreign banks and banking institutions and conclude special agreements with them.

In order to develop relations with its foreign correspondents the Bank has the right, with the approval of the People's Commissary of Finances, to pledge valuables in its possession as security for its operations.

§ 33. The Bank undertakes to open Clearing Houses at its head office and local branches, charging the members of the Clearing Houses actual expenses incurred in their working.

RELATIONS WITH THE STATE

§ 1. The State Bank is charged with the transaction of all cash operations in connection with State revenue and expenditure.

The State Bank operates on self-supporting business lines and is responsible to the People's Commissariat of Finances. It forms part of the People's Commissariat of Finances and is directly subordinate to the People's Commissary of Finances.

§§ 30-31. The Bank undertakes free of charge to receive and execute payments for deposit account of all Government institutions and undertakings and acts as cashier in connection with the execution of the State Budget.

For detailed powers of the State see under :

Management, §§ 5, 7, 8, 11, 12, 24-27.

General Business, § 29, sub-sections 1, 3, 7, § 32.

Returns, §§ 40, 41, 43, 44.

For loans to the State see under Note Issue.

RETURNS

§ 40. The mode and time of presenting periodical reports will be confirmed by the People's Commissary of Finances.

§ 41. The yearly report and balance sheets of the Bank are to be presented for examination to the Auditing Committee, not later than during the month of March of the year following.

After the examination by the Auditing Committee and not later than in the month of May following, the Board of Directors will present the report and balance sheets, accompanied by the Auditing Committee's report and by their own explanatory memorandum to the People's Commissary of Finances for confirmation and further disposal.

§ 42. The yearly balance sheet will be published in the official *Gazette*. The Board of Directors will also publish periodically statements of accounts of all operations of the Bank.

§ 43. Estimates of the expenses of the Bank within the limits of the budget grants will be prepared by the Board of Directors and presented for approval to the People's Commissary of Finances. Additional grants to cover unforeseen expenses must be applied for in a similar way.

§ 44. The Workmen and Peasants' Inspection (Commissariat of Control) shall participate in the examination of the cash in hand and safe deposits, and in the checking of the estimated expenditure at the end of the financial year.

SOUTH AFRICA

SOUTH AFRICAN RESERVE BANK

CAPITAL

10.¹ Original capital £1,000,000 stock fully paid, of which not more than 50 per cent was to be subscribed by specified banks, and balance was to be offered to public. Capital may be increased by Board with approval of Government, and price of

¹ Numbers refer to Articles of Act of 1920 (amended 1923).

issue to be similarly settled. Any premium to be added to Reserve Fund.

Stockholder entitled to one vote for every £100 stock, of which he has been registered holder for not less than six months before meeting. Banks not entitled to voting power beyond number of votes on £10,000 stock.

PROFITS AND RESERVE FUND

11. After provision for bad and doubtful debts, depreciation in assets, superannuation of staff and usual items provided for by bankers, and after payment, out of net profits, of cumulative dividend of 6 per cent, surplus to be allocated to reserve fund, until latter equals 25 per cent of paid-up capital. Thereafter until reserve equals paid-up capital, half-surplus to be allocated to reserve, one-quarter to Government, and one-quarter, up to and not exceeding 4 per cent of paid-up capital, to stockholders. If last-named quarter exceeds 4 per cent of paid-up capital, excess to be paid to Government. When reserve fund equals paid-up capital net profits, after paying 10 per cent to stockholders, shall be paid to Government.

BRANCHES

12. Bank may establish branches and agencies in the Union and, with the consent of the Government, branches and local committees outside the Union.

MANAGEMENT

9. Board to consist of eleven Directors, of whom six, who must be, or have been, actively engaged, three in commerce or finance, one in agriculture and two in other industry, shall be elected by stockholders, three shall be appointed by Governor-General, and two, the Governor and Deputy-Governor, also shall be appointed by Governor-General. All to be British subjects and resident in Union of South Africa. Directors are eligible for re-election and reappointment. Governor and Deputy-Governor to be men of tested banking experience and to have no interest in any other bank. Appointment to be for five years.

No person to be appointed or remain a Director if he is or becomes a director, officer, or employee of another bank, or is

a member of either House of Parliament or of a Provincial Council.

24. Audit. Two qualified accountants to be elected by stockholders as auditors. Treasury is authorised to inspect Bank's books and to call for returns from any bank in the Union with a view to ascertaining whether provisions of law are complied with.

NOTE ISSUE

15-16. Bank to have sole right of issue for twenty-five years. Denominations to be as prescribed by Government, and notes to be redeemable on demand in gold at office of issue.

18. Notes to be legal tender so long as Bank continues to redeem in legal coin ; but no tender of note shall be legal tender of payment by Bank.

22. Form and material of notes to be approved by Government.

RESERVE

17. Notes issued to be secured as to not less than 40 per cent in gold, and as to remainder in commercial paper or trade bills and by a first charge on all assets of Bank. (As part of reserve may be reckoned gold at Mint or in transit belonging to Bank, or gold held with Government approval outside Union, in custody of Bank's branches or in other banks, earmarked for Reserve Bank's account, up to an amount not exceeding one-fourth of Reserve requirements.)

Provided that up till 30th June 1928 notes, instead of being secured as to 60 per cent or less in commercial paper or bills, may, to an amount not exceeding

(a) 35 per cent of note issue or

(b) 140 per cent of commercial paper or bills held by the Bank

be secured in Treasury bills of the Union Government or British Government of currency not exceeding 90 days.

23. Bank to hold gold or specie reserve of at least 40 per cent of its deposits and bills payable in addition to note reserve (*vide* 17), provided that silver specie may not exceed 20 per cent of total reserve required under this section. One-fourth of reserve may, with consent of Government, be held outside Union, provided it is in Bank's custody or earmarked for Bank's account in another bank.

Suspension of Reserve Requirements

19. Subject to Government consent, Bank may suspend for not more than thirty days, renewing such suspension for periods not more than fifteen days at a time, reserve requirements in 17, subject to payment of graduated tax to Government as follows :

One per cent per annum when gold reserve is less than 40 per cent and not less than $32\frac{1}{2}$ per cent ; and in addition $1\frac{1}{2}$ per cent per annum upon each $2\frac{1}{2}$ per cent decrease or part thereof by which reserve falls below $32\frac{1}{2}$ per cent.

Provided further that Bank shall add to interest and discount rate percentage at least equal to tax. For purpose of ascertaining gold reserve against notes, allowance shall first be made for reserve of 40 per cent to be held against deposits (*vide 23*).

20. Apart from 19, Bank to be exempt from note tax.

GENERAL BUSINESS

13. The Reserve Bank of South Africa is entitled :

- (1) to issue notes ;
- (2) to accept money on deposit and current account ;
- (3) to buy and sell and rediscount bills, promissory notes, or other commercial paper bearing two or more good signatures and having maturity not exceeding ninety days ;
- (4) to buy, sell or rediscount ^{120 under Act of 1930 .} up to 20 per cent of Bank's total discounts agricultural paper, bearing two or more good signatures and with maturity not exceeding six months ; ^{limit removed .}
- (5) to buy, sell or rediscount bills and promissory notes, not exceeding ninety days' maturity, and drawn for purpose of trading in Union Government securities, subject to their bearing endorsement of a bank ;
- (6) to buy, sell or rediscount Union Government or local authorities' bills of not more than six months' currency ;
- (7) to make loans and advances against (a) Government or Municipal securities, not exceeding six months'

currency, (b) gold or documents relative to shipment or storage thereof, or (c) paper eligible for purchase subject to such advances against securities specified in (4) above not exceeding 20 per cent of total advances by Bank ;

- (8) to engage in remittance and exchange ;
 - (9) to buy and sell Government and local authorities securities not having more than six months' currency ;
 - (10) to invest sums not exceeding capital and reserve in Union (or other) Government securities of not more than two years' currency, and invest staff and super-annuation funds in Union Government securities of any currency ;
 - (11) to buy and sell securities for customers ;
 - (12) to deal in precious metals and contract for loans of gold and bullion ;
 - (13) to accept custody and management of articles of value ;
 - (14) to open accounts in foreign countries and act as agents for other banks.
14. Bank may not :
- (a) engage in trade or have direct interest in any commercial, industrial or other undertaking save as is specially provided by its permissible business ;
 - (b) purchase its own stock, or shares of any bank, or grant loans on security of same ;
 - (c) advance money on mortgage of fixed property or become owner thereof, except for its own business requirements ;
 - (d) make unsecured loans or advances ;
 - (e) draw or accept bills payable otherwise than on demand ;
 - (f) accept money on deposit for fixed term or allow interest on current accounts.

RELATIONS WITH THE STATE

Bank may act as bankers to Government, including railways and official institutions.

29. Governor-General may make regulations as necessary for carrying out provisions of the law.

See also under Management, Art. 9, for conditions of appointment of Governor and Deputy-Governor, and Art. 24, for Treasury Inspection.

Under Profits and Reserve Fund, Art. 11, for State Share in profits.

For cases in which Government approval is necessary see under Note Issue, Art. 22; under Reserve, Art. 19; under Branches, Art. 12.

State and Liquidation see Art. 11 below.

RETURNS

25. Bank to transmit to Government :

- (1) weekly account of assets and liabilities, to be published;
- (2) annual accounts to be published;
- (3) list of names of stockholders and amount of stock held, to be laid before Parliament.

RELATIONS WITH COMMERCIAL BANKS

30. All banks to keep reserve balances with Reserve Bank up to at least 10 per cent of demand liabilities and 3 per cent of time liabilities to the public in the Union, subject to penalty of 10 per cent per annum on amount of deficiency for each day it has continued. No Bank may make new loans or pay dividend until required reserve balance is restored.

31. All banks to submit to Treasury monthly returns, including details of bank's demand and time liabilities to public in the Union of South Africa, gold and subsidiary coin held there, balances at Reserve Bank, advances and discounts and Reserve Bank notes.

TERM OF CHARTER AND LIQUIDATION

15. Term of Bank's privilege, 25 years from 1920.

11. Bank not to be placed in voluntary or compulsory liquidation except on authority of Act of Parliament. In event of liquidation, reserve and surplus to be divided between Government and stockholders in proportion of 60 per cent and 40 per cent respectively.

SPAIN

BANK OF SPAIN

CAPITAL, PROFITS AND RESERVE FUND

S. 1.¹ Capital was raised by the law of 1921 to Pesetas 177,000,000 in shares of P. 500 each fully paid, and power is given for raising to P. 250,000,000 on vote of a special general meeting of shareholders with the consent of the Government.

Shareholders receive a dividend of 10 per cent from net profits and share excess with State. The amount payable to the State is a percentage of the excess over 10 per cent, and rises with the dividend on the following scale :

| | | | | | |
|-----------|--|---|------|------|--|
| | | If dividend is over 10 and up to 11 %, proportion to State, 5 % | | | |
| | | 11 | 12 % | 10 % | |
| | | 12 | 13 % | 15 % | |
| L. 1. | | 13 | 14 % | 20 % | |
| S. 21-22. | | 14 | 15 % | 25 % | |
| | | 15 | 16 % | 30 % | |
| | | 16 | 17 % | 35 % | |
| | | 17 | 18 % | 40 % | |
| | | 18 | 19 % | 45 % | |
| | | 19 | 20 % | 50 % | |
| | | Above 20 % | | 52 % | |

P. 2,000,000 are deducted from the net profits for credit to a special reserve annually. This sum is not reckoned for the purposes of calculating the share due to the State.

Various reserves have been established in accordance with previous laws, and the Bank is authorised to establish other reserves.

MANAGEMENT

S. 23. The conduct of the Bank is in the hands of the Governor, two Assistant-Governors and a Council of twenty members.

S. 25. The Governor is nominated by the Government. He represents the State and is the head of the Bank control.

¹ Numbers refer to Articles of Law of 29th December 1921 (L.) and of Statutes of 18th July 1922 (S.).

Inter alia, he is responsible for seeing that the Bank's operations conform to the Statutes as regards reserves and otherwise. He may suspend any decision of the Council that he considers contrary to the laws and report it to the Finance Minister.

S. 30. The Assistant-Governors are nominated by Royal decree, on the proposal of the Council.

S. 36. The Council numbers twenty; Spanish shareholders only eligible. Their appointment requires approval of the King. Fifteen are to be elected from the shareholders; three are elected by banking institutions participating in the scheme of control of banking; one is nominated by the Chamber of Industry and Commerce, and one by the official Agricultural Corporations.

Period of office, five years—members are eligible for re-appointment.

S. 37. Eighteen associates, six chosen by each of three groups of shareholders divided according to the amount of their shares, take part in the sitting of the Council.

S. 40. The duties of the Council are defined by the Statutes. They include the regulation of the note issue, subject to the legal limit, the supervision of the Bank's operations, the settling of discount and loan rates, the passing of the balance sheet and the allocation of profits.

S. 43-50. The Council is divided into five permanent Committees, called the Committees of Issue, Operations, Administration, Control (Accounts) and Branch Business. Other Committees may be appointed if necessary.

General Assembly

S. 53-54. The General Assembly, whose ordinary annual meeting is held in March, consists of shareholders who have held fifty or more shares for three months. The right of participation is personal and cannot be delegated. Holders of shares up to 150 have one vote, of 150 to 300 two votes, of more than 300 three votes.

S. 59. Duties include passing of the balance sheet and confirming nominations for vacancies on Council and among the Associates.

Extraordinary meetings may be summoned by Royal authority, when deemed necessary by the Council or at the request of 100

or more shareholders representing 15 per cent of the capital of the Bank.

NOTE ISSUE AND RESERVE

L. I. Bank of Spain has monopoly of note issue.

L. I. 2. The circulation may not exceed 5000 million pesetas, except on the proposal of the Supreme Banking Council if required by the economic conditions, when the Government may authorise an increase up to 6000 million pesetas.

On note issue up to P. 4000 million, reserve must be held of 45 per cent metal, with a minimum of 40 per cent gold, balance silver.

On issue in excess of P. 4000 and up to P. 5000 million, 60 per cent metal, with a minimum of 50 per cent gold, balance silver. Same ratio applies to issues in excess of 4000 million, if issue is raised with approval of Government to P. 6000 million. Gold may be held in Spanish coin, foreign coin at its par value, or bars at the rate of 3.444 pesetas to 44 c. per kilogram of gold. Up to 3 per cent of requirements of gold may be held abroad by Bank's agents. The silver must be in legal tender coin.

No reduction may be made in gold holdings without the agreement of the Government. No authorisation for the decrease of gold holdings may be given unless it is in excess of the reserve necessary for a circulation of P. 6000 million.

In return for the grant of the privilege of issue, the State receives share in profits of Bank (see under Capital and Profits).

GENERAL BUSINESS

S. 6-20. The Bank of Spain is authorised :

1. To discount bills with currency not exceeding ninety days, and bearing signature of at least two persons of known solvency. Special privilege in regard to rate is given in case of bills presented for rediscount by private banks and certain agricultural institutions, and in case of certain bills relating to agricultural operations. In last case the currency of the bills may be up to one year, if certain additional guarantee is afforded.

Bonds of the State and Treasury Debt and industrial and commercial securities may also be discounted, but the above preferential rates do not apply in these cases.

2. To make advances for periods not exceeding ninety days against collateral of :

- (a) Gold and silver up to 90 per cent of intrinsic value.
- (b) Government securities up to 80 per cent of effective value or as may be arranged with Government.
- (c) Other securities on conditions to be determined by the Bank.
- (d) Bills of lading up to 50 per cent of value.
- (e) Insured merchandise supported by approved warehouse receipts or approved guarantees up to 70 per cent of value.

In case of (a), (b) and (c) a privilege of $\frac{1}{2}$ per cent on the rate is granted to the organisations indicated in the preceding section, except in the case of State securities, securities of State industrial monopolies and State-guaranteed securities. In case of (d) and (e) value may be raised by 10 per cent for the above organisations.

3. To open current accounts. (These may be opened against approved collateral and, in certain cases, against personal security with guarantees.)

4. To take custody of articles, etc., of value.

5. To buy and sell precious metals, transfer funds and to undertake business for third parties and all other customary bank operations.

6. To act as bankers to the Government gratis.

The Bank is not allowed to buy or sell securities for speculative purposes, to lend on its own shares, or to accept mortgages as collateral. Shares or real property that come into its possession in the course of business are to be realised as soon as possible.

RELATIONS WITH THE STATE

L. 1. State has received in the past various credits from the Bank either interest-free or on beneficial terms, which are extended by law of 1921.

The Bank acts as bankers to the Government gratis.

See also under :

Capital, Profits and Reserve Fund for State share in profits.

Management, S. 25 and 30 for State appointments.

Note Issue.

RETURNS

S. 21. Accounts to be prepared twice a year at end of June and December.

TERM OF CHARTER

Until 31st December 1946.

SWEDEN

SVERIGES RIKSBANK

CAPITAL

Art. 2.¹ Capital, 50 million kronor,² apart from real estate, office equipment, collection of coins and medals and the instalment loan fund.

PROFITS AND RESERVE FUND

Art. 26. Ten per cent of the net profits to be paid to the Reserve Fund until this equals 25 per cent of the capital stock of the Riksbank. Thereafter payments to the Reserve Fund may cease, but if it falls below 25 per cent they must be resumed.

A sum not less than the amount of the reserve fund shall be held in the following forms :

- (a) Foreign government securities which are readily saleable.
- (b) Bills of exchange, payable abroad.
- (c) Funds with a maturity not exceeding six months deposited on account with foreign banks, less any contra accounts.

BRANCHES

Art. 9. Head Office at Stockholm and branch offices. There shall be at least one branch in each of the counties excepting the county of Stockholm.

MANAGEMENT

Directors

Art. 72 of Constitution of 1809. The Riksbank is governed by a board of seven directors in accordance with the laws laid down jointly by the King and the Riksdag.

¹ Except where otherwise stated numbers refer to Articles of the Law of 1897, as amended to 1924 from *Scandinavian Banking Laws*, 1926, issued by Colombia University Press, New York.

² Owned entirely by Riksdag.

One director (with one substitute) appointed by the King for a renewable term of three years.

Six directors appointed by the Riksdag¹ for a renewable term of three years; three substitutes for a renewable term of one year.

The Director appointed by the King shall be President of the Riksbank.

Art. 29. Members of the Ministerial Council and directors of the National Debt Office may not be directors of the Bank.

Art. 30. Directors must be Swedish citizens.

They may not be members of any other bank other than a savings bank or the Post Office Savings Bank.

Art. 35. Directors of the Bank and managers of branch offices may not act as agents in connection with the discounting of bills and the securing of loans.

Auditors

Art. 72, Regulations of 1866. Twelve auditors for each year, six from each chamber, shall be elected each session of the Riksdag to verify the balance sheet, administration and management of the Treasury, the Riksbank and the National Debt Office.

NOTE ISSUE AND RESERVE

Art. 72, Constitution of 1809. The Bank has the sole right of note issue. Its notes are legal tender.

The notes shall be payable on demand at the Head Office in gold. A suspension of the obligation on account of war or some serious financial crisis may be granted for a fixed period jointly by the King and Riksdag, or if the Riksdag is not in session by the King alone, on the proposal of the Board of Directors and after consultation with the directors of the National Debt Office. Such suspension must be ratified by the Riksdag within twenty-one days after its first meeting, failing which it becomes void.

Art. 5. The denomination of the notes to be for 5, 10, 50, 100 and 1000 kronor. In exceptional circumstances the King

¹ These Directors are elected by 48 Electors taken in equal numbers from each chamber of the Riksdag. Election is by secret ballot. Regulation of Riksdag, 1866 (Art. 71).

may authorise on the proposal of the Board of Directors the issue of 1 kronor notes.

Art. 6. Notes may be issued to an amount of 125 million kronor, together with an amount equal to double the metallic reserve.

In case of war, menace of war or a serious financial crisis, the issue of an additional 125 million kronor may be authorised by the King and Riksdag acting together.

Art. 7. The portion of the note issue which exceeds the metallic reserve must be covered by the following assets :

- (a) Readily saleable Government securities, domestic or foreign.
- (b) Bonds of the Royal Mortgage Bank of Sweden, of the Swedish Cities Mortgage Bank and other domestic bonds which are quoted on foreign bourses.
- (c) Gold coin or bullion on deposit abroad, or in transit therefrom, duly insured.
- (d) Bills of exchange payable in Sweden or abroad.
- (e) Funds with a maximum maturity of six months deposited on account with foreign banks, less any sums owing by the Riksbank to foreign banks.
- (f) Advances made on Government securities and bonds defined under (a) and (b).

Art. 8. The metallic reserve consists of gold coin (Swedish or foreign) and bullion belonging to the Riksbank and held in Sweden. It may not fall below 75 million kronor.

GENERAL BUSINESS

The Riksbank may carry out the following business :

Art. 10. Buy and sell gold and silver.

Bullion delivered to the Mint on account of the Bank shall be paid for by the bank at the rate of 2480 kronor per kilogram of fine gold, less $\frac{1}{4}$ of 1 per cent for the expenses of minting. The Board of Directors may, however, exempt the seller from all or part of the expenses of minting.

Art. 11. Buy and sell bills of exchange drawn on foreign firms or persons resident abroad of a maturity not exceeding six months, and payable abroad or in Sweden.

Buy and sell foreign securities of the same maturity.

Art. 12. Buy and sell Swedish bonds and foreign government securities quoted on foreign bourses and readily saleable.

Acquire through other transactions Swedish Government bonds or securities of foreign governments which are readily saleable.

Serve as agent for the sale of Swedish Government bonds and bonds of the Royal Mortgage Bank of Sweden.

Art. 13. (a) Discount acceptances payable in Sweden within six months ;

(b) make advances on bonds, shares or other securities for a fixed period not exceeding six months, or on call for a period not exceeding three months (certain local and other authorities may obtain advances without other collateral than their own notes) ;

(c) make advances redeemable at a fixed date within six months on merchandise deposited in a public warehouse or with a reliable third person who binds himself to hold them or their value at the disposition of the Riksbank ;

(d) grant cash credit or drafts on current account for a period not exceeding twelve months, against securities in the form of bonds, shares or mortgages on real estate, or on a personal guarantee. The total of such credits not to exceed kr. 15 millions, exclusive of cash credit to National Debt Office (see Relations with the State, Art. 14) ;

(e) grant credits from the Instalment Loans Fund¹ which amounts to kr. 39.5 million and is placed under the administration of the Bank. Credits to be secured as in (d) above.

Art. 15. Loans or cash credits to Directors of the Bank or its branches to be made only against merchandise stored in a public warehouse, bonds of the Swedish Government, Royal Mortgage Bank or mortgage societies.

Loans, cash credits or credits on current account may not be granted on the guarantee of a Director of the Bank or its branches, nor bills discounted bearing the name of any Director as acceptor, or drawer or last endorser.

¹ These loans are repayable in instalments over 2½, 5 or 7½ years.

Art. 16. The Riksbank may receive at its Head Office or branches :

- (a) deposits of money repayable without interest on sight or at fixed periods ;
- (b) deposits on drawing accounts without charge or interest. The Bank may make arrangements to facilitate clearing in this connection.

The Bank may also open checking accounts for firms which do discounting business with the Bank, and not themselves conduct a banking business.

The Bank is empowered to open deposit accounts on which interest is payable. (*N.B.*—The Bank has not taken advantage of this permission.)

Art. 18. All persons are entitled to make payments to the head office or branch, and to receive a draft free of charge on the main office payable on presentation.

Art. 19. The Riksbank to accept gold, silver or securities for safe keeping.

Art. 20. If the Board of Directors deem it necessary, the Riksbank may arrange for foreign credits, which shall not exceed a sum specified in its regulations.

The Riksbank may open accounts with or without interest with foreign banks and mercantile firms of sound credit.

Art. 21. The Riksbank is authorised to conduct business for profit at its printing works and paper mills.

Art. 22. The Riksbank may not conduct or take part in any type of business other than those expressly permitted by law.

It may not own real estate other than that necessary for the conduct of its business. The Riksbank is, however, authorised to purchase real estate or other property given as pledge, if such purchase is considered necessary to safeguard its rights. Property so acquired shall be disposed of when it is deemed advantageous, or when it can be done without loss.

RELATIONS WITH THE STATE

Art. 72, Constitution, 1809. The Riksbank is placed under the guarantee of the Riksdag.

Art. 14. The National Debt Office may be granted a credit not exceeding kr. 1,500,000 without security or commission charges.

Art. 17. The Riksbank to accept without interest funds deposited to the account of the Treasury.

Art. 32. The Directors to present annually to the Parliamentary Committee on Banking a report on the position and management of the Bank, which shall be made public.

Art. 34. The Directors may not receive instruction for the administration of the Riksbank, except from the Riksdag or its Parliamentary Committee on Banking.

The Directors are responsible to the Riksdag, its Parliamentary Committee and its Auditors.

The responsibility of the Directors of the Bank and its branch offices is determined in special statutes.

For State powers in connection with :

Appointments of Directors and Auditors see Arts. 72 of Constitution of 1809 and Art. 72 of Regulations of 1866, under Management.

Note issue, Art. 72 of Constitution of 1809, Arts. 75 and 76.

ACCOUNTS

Arts. 23, 24. The Bank to publish in the official *Gazette* :

- (a) a monthly summary statement of assets and liabilities ;
- (b) a weekly statement of notes outstanding and of the metallic reserve and other securities against notes.

SWITZERLAND

SWISS NATIONAL BANK

PURPOSE OF THE BANK

2.¹ The principal task of the Bank is to regulate the money market and to facilitate payments.

CAPITAL

5. Capital, fcs. 50,000,000 paid up as to 50 per cent, in 100,000 shares of fcs. 500 each.

6. Capital may be increased by vote of the general meeting of shareholders, subject to approval of the Federal Assembly, which determines the conditions of raising the new capital.

¹ Numbers refer to Articles of Loi fédérale sur la Banque Nationale Suisse, dated 7th April 1921, except where otherwise stated.

7-8. Only Swiss citizens and firms or corporations domiciled in Switzerland may be registered as shareholders. Transfers require approval of Bank Committee.

PROFITS AND RESERVE FUND

27. A reserve fund created out of profits has been formed to cover loss of capital.

28. Out of annual profits, first charge is 10 per cent to reserve, provided this charge does not exceed in a financial year 2 per cent of paid-up capital. Next charge is dividend not exceeding 5 per cent on paid-up capital. Further of the balance, up to 10 per cent, may be appropriated for the payment of a super-dividend not exceeding 1 per cent of paid-up capital.

The remainder is divided as follows :

(1) Cantons receive contribution of 80 centimes per head of population.

(2) Thereafter, subject to Art. 29, one-third of surplus reverts to Confederation and two-thirds to Cantons. Shares of Cantons are determined by Federal Council on basis of population normally resident according to latest census.

29. If in any year the profits do not suffice to pay the fixed dues to be made over to the Cantons, the Federal Treasury shall advance the sums required to make up the amount. These advances shall be repaid with $3\frac{1}{2}$ per cent interest as soon as profits allow, and until this has been done the supplementary apportionment referred to in final clause of 28 shall not take place.

BRANCHES

4. Branches and agencies may be established after consultation with the Cantonal Government. Failing agreement the decision rests with the Federal Council. Each canton or half-canton not possessing a branch may demand the establishment of an agency in its area.

MANAGEMENT

General Meeting of Shareholders

31. Meeting may be attended by any registered shareholder or his attorney (provided latter is also shareholder).

33. President of the Bank Council, or if he is prevented, Vice-President, or, if need arise, another member of the Bank Committee designated by the Bank Council, presides.

37. Each share gives one vote, but no individual can exercise more than 100 votes in respect of his own shares or those he represents.

39. The ordinary general meeting is held annually to receive the report and accounts, and to decide as to disposal of the profits.

40. Further, it deals with following :

- (1) Nomination of fifteen members of the Bank's Council.
- (2) Nomination of the Commission of Control.
- (3) Decisions on matters submitted by Council of Bank.
- (4) Decision on increase of capital, subject to approval of Federal Assembly.
- (5) Proposals to the Federal Council, for transmission to the Federal Assembly, for revision of the Bank Act.
- (6) Decision, at least a year before the expiry of its privilege, regarding the continuance or liquidation of the Corporation.

41. Proposals for increase of capital or revision of the Bank Act can only be carried if at least a quarter of the total number of shares is represented. The decision regarding continuance or liquidation of the Bank can only be taken if at least a half of the total number of shares is represented. If the meeting does not provide the required quorum, a second meeting is held, at which the matters referred to can be deliberated even if the stated number of shares is not represented.

The Corporation will be continued after expiration of its privilege, unless at least two-thirds of the votes are entered for liquidation.

Council of the Bank

42. The Council is composed of forty members, appointed for administrative term of four years, fifteen chosen by the General Meeting and twenty-five by the Federal Council.

43. The Council should include beside representatives of finance representatives of commerce, industry, trade and agriculture.

44. The Council is nominated as follows :

The Federal Council first names the President and Vice-President.

The General Meeting next nominates fifteen members.

The Federal Council then nominates twenty-three others, of whom at most five may be members of the Federal Chambers and at most five of Cantonal Governments.

The members of the Council need not deposit shares.

45. The Council exercises a general supervision on the conduct of affairs. It is specially charged :

- (1) to nominate five members of the Bank Committee ;
- (2) to nominate local Committees ;
- (3) to make proposals to the Federal Council for the nominations of the members to the general direction, and their substitutes, and for the local directions ;
- (4) to approve such regulations, reports and annual accounts prepared by the Bank Council as require submission to the Federal Council ;
- (5) to lay down rules regarding transfer of shares ;
- (6) to prescribe issue of notes envisaged in 18 (second clause) ;
- (7) to call up unpaid capital ;
- (8) to recall series of notes ;
- (9) to fix terms of service for staff ;
- (10) to draw up proposals to be submitted to the General Meeting ;
- (11) to take decisions regarding business involving more than five million francs or the grant of credit to clients involving more than three million francs. (When the credit concerned exceeds one-fiftieth of paid-up capital of Bank, the assent of at least thirty members of Council is required.)

49. The Council meets at least once in three months. (Provision exists for extraordinary meetings.)

Committee of Bank

50. A Committee of seven members, nominated for administrative period of four years, controls the conduct of the Bank, as a delegation of the Council. The Committee includes the President and Vice-President of the Council, and five

others nominated by the Council, which also appoints three substitutes.

The Committee meets as necessary, and at least once a month.

51. The Committee deals in the first instance with all questions coming before the Council. It advises regarding the discount rate and rate of interest on advances. It determines all matters not reserved by law for any other organ of the Bank. Grants of credit exceeding one million francs and not requiring sanction of the Council are submitted for its approval.

Local Committees

52. These consist of three or four business men nominated by the Council of the Bank for each office and branch. They consider questions concerning grants of credits and advances

Commission of Control

53. This Commission is nominated annually by the ordinary General Meeting. It consists of three members and three substitutes (non-shareholders are eligible). It verifies the annual accounts and balances and submits a written report to the General Meeting.

General Direction

54. The general direction is the supreme executive of the Bank. Subject to the reservations in the law it carries out all measures appropriate to the purpose of the Bank. In particular it fixes rate for discounts and advances, after consulting the Bank Committee and hearing the views of the directions of the principal branches.

55. The general direction is composed of three members with necessary substitutes, who are nominated by the Federal Council on the proposal of the Council of the Bank for an administrative term of six years. The Federal Council designates the President and Vice-President.

Local Directions

56. Each branch has a director and may have a sub-director. They are nominated for administrative terms of six years by the Federal Council on the recommendation of the Council of the Bank.

General Regulations

57. Members of the Bank Council and Local Committees, the members and substitutes of the Commission of Control as well as all the officials, must be Swiss citizens domiciled in Switzerland.

58. Members of the Federal Assembly, the Cantonal Governments and the Bank Council are ineligible for the general or local directions.

NOTE ISSUE AND RESERVE

1. The Bank has monopoly of note issue.

17. Bank issues notes in accordance with trade needs.

The preparation, withdrawal and destruction of notes is under supervision of Federal Finance Department.

18. Denominations of notes are 50, 100, 500 and 1000 francs. With assent of Federal Council notes of other denominations may be issued.¹

19. Equivalent of notes in circulation must be covered by :

- (1) gold or silver currency of legal tender, or of value recognised by agreement, excluding subsidiary silver coin ;²
- (2) gold bar, reckoned at mint parity allowing for coinage charges ;
- (3) foreign gold coin ;
- (4) bills of exchange, cheques, securities, Treasury bonds, foreign sight drafts ; or
- (5) loans resulting from advances on current account :
 - (a) against securities, conforming to the conditions in 14 (4b) [see under General Business] ;
 - (b) against precious metals [*vide* 14 (8)—see under General Business.

The metallic cover must amount to at least 40 per cent of note circulation.

¹ Notes of 5 francs and 20 francs have been authorised (Decrees of Federal Council dated 30th July 1914 and 3rd October 1921).

² Five franc pieces of other countries of the Latin Union withdrawn from circulation by the Bank for the account of the Confederation and no longer current in Switzerland may be reckoned as part of the metallic reserve at the bullion value of their silver content, subject to such silver portion of the reserve not exceeding one-fifth of the reserve (Law of September 1923).

20. The Bank is obliged to cash its notes on demand at par in legal currency :

- (a) at its Head Office in Berne without limit of amount ;
- (b) at its Head Office at Zurich, branches and agencies, to the extent of available cash, but in all cases after the time necessary for bringing currency from the Central Office.

21. Bank is obliged to receive its notes at par. Public Federal Treasuries are equally obliged to accept the Bank's notes at par in payment.

22. The Federal Council cannot declare the notes legal tender or free the Bank from the obligation of cashing them in legal currency, except in case of necessity at time of war.¹

25. With the authority of the Federal Council the Bank may recall specified series of notes owing to deterioration, forgery or other important reason. For twenty years from the notice of recall the Bank is obliged to pay or exchange the notes at nominal value.

GENERAL BUSINESS

14. Bank may :

- (1) Issue notes.
- (2) Discount bills of exchange, and cheques to order (including agricultural paper arising out of commercial transactions), payable in Switzerland, bearing at least two thoroughly good and independent signatures. Discount securities payable in Switzerland and eligible as collateral for loans. Maturity must not exceed three months.
- (3) Purchase and sell bills, cheques to order, foreign sight drafts and Treasury bonds of foreign States. (Conditions as to maturity of and signatures on bills as in (2).)
- (4) Make advances at interest against security :
 - (a) for fixed period not exceeding three months ;
 - (b) on current account, callable at most at ten days' notice.

Shares are not accepted as security.

(5) Receive deposits without interest, and receive at interest on current account Government funds and funds of establishments under Government control.

¹ Notes were declared legal tender by decree of Federal Council dated 30th July 1914.

(6) Make transfers and payments, and carry out collections.

(7) Purchase on its own account Government and Cantonal bonds and those of foreign states, payable to bearer and easily saleable. These operations may only be effected for the temporary employment of resources at the disposal of the Bank.

(8) Purchase and sell, for its own account or for third parties, precious metals, coined or in bar, and make advances against these metals.

(9) Issue gold and silver certificates.

(10) Accept for safe custody securities and articles of value, and effect purchase and sale of securities and subscriptions on account of third parties.

(11) Arrange issue of Government loans and accept subscriptions for Government and Cantonal loans, but it is excluded from taking up these loans.

15. The Bank is obliged (1) to receive and pay moneys on behalf of the State, without charge, but only up to the amount of balances of the State with the Bank ; and

(2) to manage without charge funds belonging to the State and placed under its administration.

RELATIONS WITH THE STATE

2. The Bank undertakes to carry out without charge the service of the Federal Treasury.

26. Accounts must be submitted to approval of Federal Council before presentation to shareholders.

12. The Bank is exempt from all taxation in the Cantons.

65. This article enumerates the heads under which the Government exercises a supervision over the Bank.

1.—*Federal Assembly*

See Art. 6, under Capital.

2.—*Federal Council*

See Art. 4, under Branches.

See Arts. 18, 22 and 25, under Note Issue

See Art. 28, under Profits and Reserve Fund.

See Arts. 42, 44, 50, 55, 56, under Management.

See Art. 26, under Returns.

3.—Federal Department of Finances

See Art. 17, under Note Issue.

RETURNS

16. The Bank publishes its rate for discounts and advances. It also publishes weekly returns of assets and liabilities and its annual accounts.

26. The accounts for the Bank must be submitted to the Federal Council for approval before presentation to the General Meeting. The annual balance sheet must conform with the requirements of the Federal Code.

TERM OF CHARTER AND LIQUIDATION

76. The decision relative to the renewal or otherwise of the Bank's privilege as well as to the possible taking over of the Bank by the Confederation is effected by the Federal legislature. If the Confederation wishes to renew the privilege, the term of renewal shall be ten years each time. If the Confederation is against renewal, it reserves the right, subject to a year's previous notice, to take over the Bank with its liabilities and assets on the basis of an agreed balance sheet, or one settled by the Federal Court in the event of disagreement. The same conditions apply if the General Meeting votes for liquidation.

77. Failing a decision under 76, the issue of notes rests with the Bank for three further years.

78. In the event of transfer of the Bank to the State, the paid-up capital is repaid with interest at 5 per cent pending liquidation. Any reserves available after providing for losses are divided as to one-third, but not exceeding 10 per cent of the paid-up capital, to the shareholders, a half of the balance to the State, to be paid to the new Bank of Issue, and the other half to the Cantons in proportion to their population. The assets balance is assigned to the new Bank of Issue of the Confederation.

Term of Charter

Extended from 20th June 1927 to 20th June 1937 by the Law of 1925.

✓ UNITED STATES OF AMERICA

FEDERAL RESERVE SYSTEM

PURPOSE OF FEDERAL RESERVE SYSTEM

Preamble

To provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective system of banking in the United States of America, and for other purposes.

CAPITAL

2.¹ All national banking associations to subscribe to capital stock of Federal Reserve Bank in their district, in gold or gold certificates, up to 6 per cent of capital stock and surplus of bank, half to be paid up by instalments and half to be at call.

State banks, banking associations and trust companies conforming to certain requirements may also become members of the Federal Reserve Banks.

Stockholders are liable for engagements of Bank to the amount of the par value of their stock, in addition to the amount subscribed, whether paid up in whole or in part.

If subscriptions by banks are insufficient to provide necessary capital, stock may be offered to public at par, and provision is made for issue of stock to United States Government for subsequent disposal if subscriptions by banks and public are insufficient to produce requisite capital.²

No Federal Reserve Bank to commence business with subscribed capital of less than \$4,000,000.

5. Federal Reserve Bank stock to be in shares of \$100 each. Stock of Bank to be increased or decreased as member banks increase or reduce their stock or surplus. Such banks to subscribe 6 per cent of any increase in stock or surplus, one-half to be paid up and one-half to be at call.

6. Provision is made for readjustment of capital of Federal

¹ Numbers refer to sections of Federal Reserve Act, 1913, as amended to 1923.

² No offer of stock to the public or Government has been necessary.

Reserve Bank on reduction by member bank of its capital or on its liquidation.

PROFITS AND RESERVE FUND

7. After payment of expenses stockholders to receive cumulative dividend of 6 per cent. Balance to be paid to the United States as a franchise tax, except that net earnings shall be paid into a surplus fund until such fund equals subscribed capital of Bank, after which 10 per cent of net earnings to be so credited.

Net earnings derived by United States from Federal Reserve Banks to be used to supplement gold reserve against United States notes, or to reduce outstanding bonded debt of United States.

ORGANISATION

Federal Reserve Districts

§ 2. Designation of Federal Reserve Cities, not less than eight and not more than twelve, as centres of Federal Reserve districts.¹

Board of Directors of Federal Reserve Banks

4. The Board "shall administer affairs of Bank fairly and impartially and without discrimination . . . and shall, subject to provisions of the law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks".

Board to consist of nine members, in three classes :

- A. Three chosen by and representative of stockholding banks ;
- B. Three at time of election actively engaged in their district in commerce, agriculture or other industry ;
- C. Three designated by Federal Reserve Board, one of whom to be designated Chairman and Federal Reserve Agent—he must be a person of tested banking experience.

No Senator or representative of Congress to be member of Federal Reserve Board or officer or director of a Federal Reserve Bank.

¹ Actually 12 have been designated.

No director of Class B to be connected with a bank as director or official.

No director of Class C to be connected with a bank as director, official or stockholder.

A and B directors to be elected by member banks under a prescribed procedure.

Term of office, three years.

State Banks as Members

9. All State banks, becoming members of the system, to comply with reserve and capital requirements of Federal Reserve Act, and with provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, and relate to withdrawal or impairment of their own capital stock and the payment of unearned dividends.

All such banks to make reports at least three times annually to Federal Reserve Bank, subject to penalty for omission.

All such banks to be subject to examination under direction of Federal Reserve Bank or Board.

Subject to the Act and rules, all State banks, becoming members of system, to retain full rights as a State bank or Trust Company, and to enjoy all privileges of member banks, provided that no Federal Reserve Bank shall discount paper of any one borrower whose debt to such State bank or Trust Company is greater than could be lawfully incurred if it were a national banking association.

Federal Reserve Board

10. Eight members—Secretary of the Treasury and Comptroller of the Currency (*ex officio*), and six members appointed by the President with the approval of the Senate, not more than one of whom to come from any one Federal Reserve district. In making selection, President to have regard to fair representation of financial, agricultural, industrial, commercial interests and geographical divisions of the country. The six members to be full-time officers and to be salaried (\$12,000 per annum); term of office, ten years. One of the six appointive members to be designated by President as Governor, "the active executive officer", and one as Vice-Governor of Federal Reserve Board. Secretary of Treasury to be *ex-officio* Chairman of Board.

The Secretary of the Treasury may assign offices in Department of Treasury.

All members of Board to take oath of office.

Expenses of Board to be met from a levy on Federal Reserve Banks in proportion to their capital stock and surplus.

No member of Board to be officer or director of or stockholder in a Bank.

Secretary of the Treasury and Comptroller of the Currency to be ineligible while in office and for two years after to hold any office in a member bank.

Board to make annually full report for information of Congress.

11. Powers of Board :

- (a) to examine books and affairs of Federal Reserve Banks and member banks, and to publish weekly returns of assets and liabilities, showing position of each Federal Reserve Bank, and a consolidated statement for all Federal Reserve Banks ;
- (b) to provide for rediscounting by Federal Reserve Banks of discounted paper of other Federal Reserve Banks at prescribed rate of interest ;
- (c) to suspend any reserve requirements for period not exceeding thirty days, and to renew same for periods not exceeding fifteen days, subject to establishment of graduated tax on deficiency, and subject to following graduated tax in case of deficiency of note reserve :

If gold reserve against Federal Reserve notes falls below 40 per cent, tax not exceeding 1 per cent per annum, if proportion is between 40 per cent and $32\frac{1}{2}$ per cent ; a tax of not less than $1\frac{1}{2}$ per cent per annum for each $2\frac{1}{2}$ per cent or part thereof by which reserve falls below $32\frac{1}{2}$ per cent. Tax to be paid by Reserve Bank, which shall add amount of tax to rates of discount and interest fixed by Federal Reserve Board.

- (d) to regulate Federal Reserve note issue ;
- (e) to regulate classification of reserve and central reserve cities ;
- (f) to suspend or remove officers or directors of any Federal Reserve Bank ;

- (g) to require writing off of doubtful or worthless assets on books of Federal Reserve Banks ;
- (h) to suspend, for violation of Federal Reserve Act, any Federal Reserve Bank, and to administer, liquidate or reorganise same ;
- (i) to make regulations for safeguarding assets in hands of Federal Reserve Agents ;
- (j) to exercise general supervision over Federal Reserve Banks ;
- (k) to grant special authority to national banks to act under conditions prescribed in laws as trustee or in other fiduciary capacity permissible to Trust Companies that come into competition with national banks ;
- (l) to employ any requisite experts or officials ;
- (m) after 31st October 1921 to permit, under certain conditions as regards limit and security, Federal Reserve Banks to discount for member banks the paper of a single borrower beyond amount otherwise allowable.

Federal Advisory Council

12. Representatives of Federal Reserve districts to meet at least four times a year. Powers advisory only.

Bank Examinations

21. Provisions for examination of member banks at least twice a year on behalf of Government, for which purpose State examination may be accepted in case of State banks.

Provisions for examination of Federal Reserve Banks at least once a year on order of Federal Reserve Board.

25. National banking associations possessing a minimum prescribed capital and surplus may be allowed to open foreign branches and invest part of capital in banks doing business abroad under conditions prescribed by Federal Reserve Board.

Banking corporations authorised to do foreign banking business may be formed under prescribed conditions.

NOTE ISSUE AND RESERVES

16. Federal Reserve notes, which shall be obligations of the United States, may be issued at discretion of Federal Reserve

Board for advances to Federal Reserve Banks through the Federal Reserve Agents—to be accepted by all national member and Federal Reserve Banks, and for all public dues. Redeemable in gold at Treasury or in gold or lawful money at any Federal Reserve Bank.

Federal Reserve Banks to give to the Federal Reserve Agent collateral for notes issued to them. Collateral may consist of:

- (a) bills, drafts, etc., acquired under Section 13 (see under General Business);
- (b) bills of exchange endorsed by a member bank and purchased under Section 14 (see under General Business);
- (c) gold or gold certificates.

Every Federal Reserve Bank to hold:

- (a) against deposits, not less than 35 per cent in gold or lawful money;
- (b) against notes in circulation, not less than 40 per cent in gold. See also 11 (c) under Federal Reserve Board, p. 361.

Gold or gold certificates held by the Federal Reserve Agent as collateral for notes issued to the Banks reckon as part of their obligatory issue.

No Federal Reserve Bank may pay out notes issued by another.

Federal Reserve Banks to keep on deposit at United States Treasury gold sufficient in the judgment of the Secretary of the Treasury for redemption of notes, but in no case less than 5 per cent of amount of notes issued, less gold or gold certificates held as collateral, such gold to be reckoned as part of requisite 40 per cent.

Federal Reserve Board to have right to grant or reject in whole or part application of Federal Reserve Bank for notes. Federal Reserve Banks to pay such rate of interest as may be established by Federal Reserve Board on its Federal Reserve notes outstanding, less amount of gold or gold certificates held by Federal Reserve Agent as collateral.¹

A Federal Reserve Bank may reduce its liability for Federal Reserve notes by depositing with Federal Reserve Agent

¹ No interest charge has been imposed hitherto. Prof. Kemmerer states that the purpose of the provision is to "encourage the retirement from circulation of bank-notes whenever they become redundant".

Federal Reserve notes, gold, gold certificates or lawful money of the United States. Federal Reserve Agent shall hold such gold, certificates or lawful money exclusively for exchange of outstanding Federal Reserve notes, when offered by the Reserve Bank of which he is a director.

Notes to be first and paramount charge on assets of Bank.

Comptroller of Currency, under direction of Secretary of Treasury, to arrange for form and printing of notes.

Reserves of Member Banks

19. All member banks shall maintain with their Federal Reserve Bank as balance :

- (a) if not in a reserve or central reserve city, minimum of 7 per cent of demand deposits and 3 per cent of time deposits ;
- (b) if in a reserve city, minimum of 10 per cent of demand deposits and 3 per cent of time deposits ;
- (c) if in central reserve city, minimum of 13 per cent of demand deposits and 3 per cent of time deposits.

Demand deposits comprise deposits payable within thirty days, and time deposits all deposits payable after thirty days.

Prescribed balance may, under rules and penalties laid down by Federal Reserve Board, be drawn upon by member bank for meeting existing liabilities, provided no new loans are made or dividends are paid until statutory balance is restored.

GENERAL BUSINESS OF FEDERAL RESERVE BANKS

13. (1) To receive deposits or bills for collection from member banks or Government, or for exchange or collection ; to receive from non-member banks deposits, provided such banks maintain adequate balance.

(2) To discount paper endorsed by member banks and arising out of actual commercial, agricultural or industrial transactions and with maturity of not more than ninety days (exclusive of days of grace) at time of discount. Eligible paper to exclude bills covering merely investments or drawn for purpose of carrying on trading in securities, except bonds and notes of United States Government.

(3) To discount or purchase bills endorsed by member banks and payable at sight or on demand, drawn to finance domestic

shipment of staple agricultural products and secured by bills of lading or other shipping documents, conveying or securing title to such staples, provided no such bill is held by or for account of a Federal Reserve Bank for more than ninety days.

Aggregate of such paper bearing signature of any one borrower, rediscounted for any one bank, shall not exceed 10 per cent of unimpaired capital and surplus of said bank.

(4) To discount acceptances, with maturity of not more than ninety days' sight (exclusive of days of grace), and bearing endorsement of at least one member bank, provided that such acceptances, if drawn for agricultural purposes and secured by warehouse receipts or other documents of title covering readily marketable staples, may be discounted with maturity not exceeding six months (excluding days of grace).

(5) Member bank may accept bills drawn upon it, with not more than six months' currency (excluding days of grace), arising out of importation or exportation of goods, or arising out of domestic shipment of goods, provided they are secured as in (4).

No member bank may accept for any one person or firm an amount exceeding 10 per cent of its paid-up and unimpaired capital and surplus unless bank is secured by attached documents or other security growing out of same transaction as the acceptance, and no bank shall accept such bills in the aggregate to more than 50 per cent of its paid-up and unimpaired capital and reserve, subject to power of Federal Reserve Board to permit increase up to 100 per cent and provided that acceptances arising out of domestic transactions shall in no case exceed 50 per cent.

(6) Any Federal Reserve Bank may make advances to its member banks on their promissory notes for maximum period of fifteen days—rates to be determined by Federal Reserve Bank, subject to approval of Federal Reserve Board—provided the promissory notes are secured by paper eligible for rediscount or purchase by Federal Reserve Banks, or by bonds or notes of United States.

(7) Discount and dealing in bills and acceptances by any Federal Reserve Bank shall be subject to regulations by Federal Reserve Board.

(8) In places of less than 5000 inhabitants any national

banking association may act under regulations prescribed by the Comptroller of the Currency as agent for insurance or as agent for securing loans on real estate.

(9) Any member bank may accept drafts or bills of exchange drawn upon it with not more than three months to run (exclusive of days of grace), drawn according to regulation of Federal Reserve Board by banks or bankers abroad or in United States dependencies and possessions to provide dollar exchange required for trade purposes—provided that maximum to be accepted from any one bank is limited to 10 per cent of paid-up capital of accepting member bank, unless bill is accompanied by documents of title or adequate security. Aggregate of such bills not to exceed one-half of paid-up capital and surplus of member bank.

(10) Federal Reserve Banks may, subject to regulation of Federal Reserve Board, discount notes, drafts and bills of exchange endorsed by member banks and drawn for agricultural purposes or based on live stock with maturity not exceeding nine months, exclusive of days of grace. These may be offered as collateral for issue of Federal Reserve notes, provided that paper of more than six months' maturity is not eligible, unless it is secured by warehouse receipts or other negotiable documents of title.

(11) Federal Reserve Banks may, subject to regulation of Federal Reserve Board, rediscount notes, etc., for Federal Intermediate Credit Banks, except that no such rediscount may be made of paper endorsed by a non-member State bank or trust company eligible for membership of Federal Reserve system.

(12) Federal Reserve Banks may buy and sell debentures, etc., issued by Federal Intermediate Credit Banks or National Agricultural Credit Corporations, subject to certain limitations.

(13) Federal Reserve Board may limit to a percentage of the assets of Federal Reserve Bank the amount of paper with maturity of three to six months that may be discounted by the Bank, and the amount of paper with maturity of six to nine months that may be rediscounted by such Bank (days of grace excluded).

Open Market Operations

14. Federal Reserve Banks may (1) subject to regulations of Federal Reserve Board buy and sell in open market at home

or abroad cable transfers, bankers' acceptances and bills of exchange of kind eligible under the Act for rediscount, with or without endorsement of a member bank.

(2) Deal in gold coin and bullion at home or abroad, make loans thereon, exchange Federal Reserve notes for gold bullion, coin or certificates, and to contract for loans of gold coin or bullion, giving security where necessary.

(3) Deal in bonds and notes of United States and bills, notes, revenue bonds and warrants up to six months' maturity issued in anticipation of collection of taxes or in anticipation of receipt of assured revenues of any State or local Government authority.

(4) Buy from member banks and sell commercial bills of exchange, with or without its endorsement.

(5) Fix rates of discount, subject to review and determination of Federal Reserve Board.

(6) Establish accounts with other Federal Reserve Banks, and with consent of Federal Reserve Board maintain accounts abroad, appoint correspondents, establish agencies, and buy through such agencies commercial bills of exchange with minimum of two good signatures, and with not more than ninety days' maturity (exclusive of days of grace), and to maintain accounts for foreign correspondents.

(7) Deal in acceptances of Federal Intermediate Credit Banks and National Agricultural Credit Corporations, when Federal Reserve Board declare that public interest so requires.

RELATIONS WITH THE STATE

15. Funds of Treasury, except 5 per cent fund for redemption of bank-notes and funds for redemption of Federal Reserve notes, may be deposited with Federal Reserve Banks, which, when required by Treasury, shall act as fiscal agents for United States.

7. Federal Reserve Banks to be exempt from Federal, State and local taxation, except taxes upon real estate.

See also :

- 7. Under Profits and Reserve Fund.
- 10. Under Organisation (Federal Reserve Board).
- 21. Under Organisation (Bank Examinations).
- 16. Under Note Issues and Reserves.

RETURNS

See under Organisation 10 and 11 (a) Federal Reserve Board.

MISCELLANEOUS

16. Federal Reserve Banks shall receive on deposit at par from member banks or Federal Reserve Banks cheques and drafts drawn upon any of their depositors and, when remitted by a Federal Reserve Bank, cheques and drafts drawn by any depositor in any other Federal Reserve Bank or member bank upon funds at credit there. Member banks may charge actual expenses incurred in collecting and remitting funds. Federal Reserve Board shall fix charges to be collected by member banks in connection with cheques cleared through Federal Reserve Banks.

26. Reaffirmation of parity provisions of Act, approved 4th March 1900, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes".

TERM OF CHARTER

4. Federal Reserve Banks to have succession until dissolved by Act of Congress or until forfeiture of franchise for violation of law (Amendment of 1927).

See also under Organisation, Federal Reserve Board, Art. 11.

APPENDIX II

I

CURRENCY AND BANK NOTES ACT, 1914

[4 & 5 GEO. V.]

[C. 14.]

1. (1) The Treasury may, subject to the provisions of this Act, issue currency notes for one pound and for ten shillings, and those notes shall be current in the United Kingdom in the same manner and to the same extent and as fully as sovereigns and half-sovereigns are current and shall be legal tender in the United Kingdom for the payment of any amount.

One pound
and ten
shilling cu
rency note

(2) Currency notes under this Act shall be in such form and of such design and printed from such plate and on such paper and be authenticated in such manner as may be directed by the Treasury.

(3) The holder of a currency note shall be entitled to obtain on demand, during office hours at the Bank of England, payment for the note at its face value in gold coin which is for the time being legal tender in the United Kingdom.¹

(4) The Treasury may, subject to such conditions as to time, manner, and order of presentation as they think fit, call in any currency notes under this Act on paying for those notes at their face value in gold.²

(5) Currency notes under this Act shall be deemed to be bank-notes within the meaning of the Forgery Act, 1913, and any other enactment relating to offences in respect of bank-notes.

¹ Cancelled by Section I, (1) (b) of Currency and Bank Notes (Amendment) Act, 1914 (4 & 5 Geo. V. c. 72).

² Extended by Act, cited in previous footnote, so as to include a power to call in currency notes, on exchanging the notes so called in for other notes of the same face value issued under that Act.

14 & 25 Vict.
c. 96.

which is for the time being in force in any part of the British Islands, and to be valuable securities within the meaning of the Larceny Act, 1861, and any other law relating to stealing which is for the time being in force in any part of the British Islands, and to be current coin of the realm for the purpose of the Acts relating to truck and any other like enactment.

(6) For the purpose of meeting immediate exigencies all postal orders issued either before or after the passing of this Act shall temporarily be current and legal tender in the United Kingdom in the same manner and to the same extent and as fully as current coins, and shall be legal tender in the United Kingdom for the payment of any amount.

The holder of any such postal order shall be entitled to obtain on demand, during office hours at the Bank of England, payment for the postal order at its face value in any coin which is for the time being legal tender in the United Kingdom for the amount of the note.

8 Edw. VII.
c. 48.

Provisos (b) and (c) to subsection (1) of section twenty-four of the Post Office Act, 1908, shall not apply to any such postal orders.

This subsection shall have effect only until His Majesty by proclamation revokes the same, and any proclamation revoking this subsection may provide for the calling in or exchange of any postal orders affected thereby.

Issue of
currency
notes.

2. Currency notes may be issued to such persons and in such manner as the Treasury direct,¹ but the amount of any notes issued to any person shall, by virtue of this Act and without registration or further assurance, be a floating charge in priority to all other charges, whether under statute or otherwise, on the assets of that person.

Authority to
issue bank-
notes beyond
limit.

3. The governor and company of the Bank of England and any persons concerned in the management of any Scottish or Irish bank of issue may, so far as temporarily authorised by the Treasury and subject to any conditions attached to that authority, issue notes in excess of any limit fixed by law; and those persons are hereby indemnified, freed, and discharged from any liability penal or civil, in respect of any issue of notes beyond the amount

¹ Under Currency and Bank Notes (Amendment) Act, 1914, a certificate entitling the recipient to the issue of the notes, mentioned in the certificate, on demand may be given instead of the notes.

fixed by law which has been made by them since the first day of August nineteen hundred and fourteen in pursuance of any authority of the Treasury or of any letter from the Chancellor of the Exchequer, and any proceedings taken to enforce any such liability shall be void.

4. Any bank-notes issued by a bank of issue in Scotland or Ireland shall be legal tender for a payment of any amount in Scotland or Ireland respectively, and any such bank of issue shall not be under any obligation to pay its notes on demand except at the head office of the bank, and may pay its notes, if thought fit, in currency notes issued under this Act :

Power to make bank notes not otherwise legal tender in Scotland and Ireland

Provided that notes which are legal tender under this section shall not be legal tender for any payment by the head office of the bank by whom they are issued for the purpose of the payment of notes issued by that bank.

This section shall have effect only until His Majesty by proclamation revokes the same, and any proclamation revoking this section may provide for the calling in or exchange of notes affected thereby.

5. (1) In this Act, the expression " bank of issue " means any bank having power for the time being to issue bank-notes.

Interpretation, short title and extent.

(2) This Act may be cited as the Currency and Bank Notes Act, 1914.

(3) This Act shall apply to the Isle of Man as if it were part of the United Kingdom, but shall not apply to any other British possession.

II

CURRENCY NOTES

TREASURY MINUTE DATED THE 15TH DECEMBER 1919

The Chancellor of the Exchequer draws the attention of the Board to paragraph 8 of the Final Report of the Committee on Currency and Foreign Exchanges after the War, which recommends the imposition of a maximum limit on the issue of Currency Notes under the Currency and Bank Notes Act, 1914. The Chancellor proposes to the Board that steps shall be taken to give effect to the recommendation that the actual maximum fiduciary circulation of Currency Notes in any year shall be the fixed maximum for the following year.

The maximum fiduciary circulation during the expired portion of the current calendar year has been £320,608,298:10s., and the Chancellor accordingly proposes that directions shall now be given to the Bank of England restricting them from issuing Currency Notes during the twelve months commencing the 1st January 1920, in excess of a total of £320,600,000 except against gold or Bank of England notes, and from issuing in the calendar year commencing 1st January in any year henceforward notes in excess of the actual maximum fiduciary circulation of the preceding twelve months.

My Lords concur.

Let copies of this Minute be transmitted to the Banks of England and Ireland, the Bankers' Clearing House Committee, and the Comptroller and Auditor-General; and let copies be presented to both Houses of Parliament.

III

GOLD STANDARD ACT, 1925

15 & 16 GEO. V.]

[C. 29.]

1. (1) Unless and until His Majesty by Proclamation otherwise directs:

- (a) The Bank of England, notwithstanding anything in any Act, shall not be bound to pay any note of the Bank (in this Act referred to as "a bank-note") in legal coin within the meaning of section six of the Bank of England Act, 1833, and bank-notes shall not cease to be legal tender by reason that the Bank do not continue to pay bank-notes in such legal coin;
- (b) Subsection (3) of section one of the Currency and Bank Notes Act, 1914 (which provides that the holder of a currency note shall be entitled to obtain payment for the note at its face value in gold coin), shall cease to have effect;
- (c) Section eight of the Coinage Act, 1870 (which entitles any person bringing gold bullion to the Mint to have it assayed, coined and delivered to him),

shall, except as respects gold bullion brought to the Mint by the Bank of England, cease to have effect.

(2) So long as the preceding subsection remains in force, the Bank of England shall be bound to sell to any person who makes a demand in that behalf at the head office of the Bank during the office hours of the Bank, and pays the purchase price in any legal tender, gold bullion at the price of three pounds, seventeen shillings and tenpence halfpenny per ounce troy of gold of the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars containing approximately four hundred ounces troy of fine gold.

2. (1) Any money required for the purpose of exchange operations in connection with the return to a gold standard may be raised within two years after the passing of this Act in such manner as the Treasury think fit, and for that purpose they may create and issue, either within or without the United Kingdom and either in British or in any other currency, such securities bearing such rate of interest and subject to such conditions as to repayment, redemption or otherwise as they think fit, and may guarantee in such manner and on such terms and conditions as they think proper the payment of interest and principal of any loan which may be raised for such purpose as aforesaid :

Provided that any securities created or issued under this section shall be redeemed within two years of the date of their issue, and no guarantee shall be given under this section so as to be in force after two years from the date upon which it is given.

(2) The principal and interest of any money raised under this Act, and any sums payable by the Treasury in fulfilling any guarantee given under this Act, together with any expenses incurred by the Treasury in connection with, or with a view to the exercise of, their powers under this section shall be charged on the Consolidated Fund of the United Kingdom or the growing produce thereof.

(3) Where by any Appropriation Act passed after the commencement of this Act power is conferred on the Treasury to borrow money up to a specified amount, any sums which may at the time of the passing of that Act have been borrowed or

guaranteed by the Treasury in pursuance of this section and are then outstanding shall be treated as having been raised in exercise of the power conferred by the said Appropriation Act and the amount which may be borrowed under that Act shall be reduced accordingly.

Short title. 3. This Act may be cited as the Gold Standard Act, 1925.

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