

Dhananjayrao Gadgil Library

१ २००११ २००११ २००११ २००११ २००११ २००११

GIPE-PUNE-047721

FOREIGN CREDIT FACILITIES IN THE UNITED KINGDOM

A Sketch of Post-war Development and Present Status

BY
LELAND REX ROBINSON

*244 in the 'Studies in History, Economics,
and Public Law' of Columbia University.*

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
IN THE
FACULTY OF POLITICAL SCIENCE
COLUMBIA UNIVERSITY

NEW YORK

1923

X62.3.12

F3

H7721

COPYRIGHT, 1923

BY

LELAND REX ROBINSON

INTRODUCTORY

THE chapters which follow were written at a time when I was making financial studies for the Department of Commerce in London. The title is perhaps too ambitious, for within the narrow compass of its covers this book could not attempt a detailed description of the technique of overseas banking. However, such is not its purpose. It is less the technique which is changing than the nature and functions of the institutions making up the money market, and it was to analyze and evaluate these tendencies that reports now arranged in this form were originally prepared.

This is less true of the later chapters, because a description of the present status of investment trusts for the American reader cannot assume a basis of general information. When we consider that these remarkable companies have been the chief medium during more than thirty years for the export of capital from Great Britain, it seems strange indeed that no careful description has ever been attempted. In this field at least I hope that the essays may prove to be of timely interest in America, and if it seems to the reader that the space devoted to investment trusts is out of proportion to the earlier sections, I have only to plead that much repetition in parts I and II of facts generally known concerning the British credit system would have bored the student of banking for whom primarily the essays were written.

I must also take this occasion to express my gratitude for helpful criticism to my colleagues in the Department of Commerce, and the many friends in London who have had

an interest in these studies. Especially I wish to thank busy bank executives who have been at pains themselves to lighten the way, and who have always met the tiresome queries of an often too zealous seeker for facts with unfailing British good-humor. Finally I desire to express my appreciation of the assistance rendered by Professor W. C. Mitchell in making helpful suggestions and in reading the proof.

Much of the material contained in the following chapters has already been published by the Bureau of Foreign and Domestic Commerce in abridged form and its publication here is due to the courtesy of the Department of Commerce.

LELAND REX ROBINSON.

MARCH 1, 1923

TABLE OF CONTENTS

	PAGE
PART I	
GENERAL	
CHAPTER I	
Outlines of British Credit Organization	11
CHAPTER II	
Recent Centralizing Tendencies.	24
PART II	
BANKING CREDIT—OVERSEAS FACILITIES OF BRITISH BANKS	
CHAPTER III	
Adaptation to Post-war Credit Needs	39
CHAPTER IV	
The British Trade Corporation.	51
CHAPTER V	
The Trade Indemnity Company.	61
CHAPTER VI	
The British Overseas Bank.	73
CHAPTER VII	
Foreign Policies of the "Big Five"	85
1971	7

PART III

LONG-TIME CREDIT—INVESTMENT TRUSTS AND KINDRED
INSTITUTIONS

CHAPTER VIII

Purpose and Characteristics of British Investment Trusts. 109

CHAPTER IX

Investment Trusts and the Export of Capital. 119

CHAPTER X

How Investment Trusts Raise their Capital 136

CHAPTER XI

Earnings. 146

CHAPTER XII

Accounting Methods of Investment Trusts. 155

CHAPTER XIII

Some Typical Investment Trusts. 167

CHAPTER XIV

Tendencies in Investment Trust Development 179

APPENDICES. 199

INDEX 227

PART I
GENERAL

CHAPTER I

OUTLINES OF BRITISH CREDIT ORGANIZATION

THE financial system of which London is the center is a plant of slow growth whose roots reach back into the very beginnings of England's national trade. As handmaiden to her commerce, the credit structure of Great Britain has unfolded into many types of institutions whose several functions are the result of evolution rather than reasoned planning. It has, therefore, the flexibility natural in a fine division of labor, and the stability of a slow adaptation to changing world conditions.

Subsequent chapters, which outline the development since the war of foreign credit facilities in the United Kingdom, reveal few, if any, fundamental changes in the groundwork of British finance. Institutions long familiar are merged into others, new banks have been organized, and domestic and foreign connections developed. But whether these movements were inspired by government initiative, or due solely to private enterprise, they have not essentially altered the interrelations of the London money market, so well understood by those interested in banking but here sketched in a few bold lines to refresh the reader's mind.

I. THE BANK OF ENGLAND

The Bank of England remains the hub of the financial wheel although her total resources are far outstripped today by any one of the five great English banks.¹ As is

¹ The "Big Five" are the dominant joint-stock banks emerging from the striking consolidation movement in the years 1917-1921. (See chap. ii). They are Barclays, Lloyds, London Joint City and Midland, National Provincial and Union, and the Westminster Bank.

shown in the next section, Exchequer operations conducted through the Bank have important repercussions in the loan market. Furthermore, as the central institution holding banking reserves and constituting the final reservoir of credit, the Bank is in position easily to dominate the money market in times of stress, and always to control rates if it chooses to compete actively enough for funds. Until London becomes again a free gold market the position of the Bank as protector of the nation's metallic reserve cannot have its pre-war significance; but the ratio¹ of gold and Bank of England notes in its vaults to the "public" and "private" deposits on its books is carefully watched as indicating the strength of the foundation upon which the City's vast credit superstructure rests.

II. THE EXCHEQUER AND THE BANK

Heavy impingement of Exchequer operations on the money market is felt through its fiscal agent, the Bank, at times when receipts are accumulating from taxes or loans, or large disbursements are being made on debt service or supply accounts. Far more than in pre-war days of com-

¹ Before the war, the ratio between gold (and Bank of England notes—which are practically gold certificates) and liabilities, averaged from 40% to 50%. The present average of reserves is 15% to 20%.

Since the introduction of a new form of legal tender in the shape of currency notes, the *effective* reserve of the Bank must be reckoned as the above *plus* the difference between the total outstanding currency notes not backed by gold or bank notes and the "maximum fiduciary issue" for the year. By the "fiduciary issue" is meant the amount of currency notes outstanding in excess of the gold and Bank of England notes held against them. The "maximum" fiduciary issue for any year is the highest point touched by the fiduciary issue of the previous year. The government's power to issue extra legal tender currency notes covered only by securities is therefore a factor to remember in calculating the Bank of England's potential reserve, as the Bank can always arrange to receive new notes in exchange for certain securities among its assets (*i. e.*, if there is still leeway for issue under the "maximum fiduciary" amount).

paratively modest budgets these receipts and expenditures cause large-scale displacements of currency which affect at any time the purchasing power of the people and the conditions under which call and time loans can be made.

Apart from temporary strain and ease at times when taxes become periodically due and larger government disbursements are made, the flow of revenue and ebb of payments in a balanced budget would not greatly affect average rates for commercial loans or the buying power of the people. Gigantic transfers of funds which public expenditure during and since the war has necessitated must of course continually disturb commerce and industry, but so far as private credit is concerned the effects would be minimized if the Treasury did not reduce or enhance over long periods the buying power of the masses or the loanable funds of the banks. In Great Britain, current income and outgo are now balanced for the most part by changes in the "floating debt", and it is in the varying composition of this that the influence of the government through its agent the Bank can best be traced in the money market. The "floating debt" takes the form of treasury (generally three months) bills, and Ways and Means Advances—the latter consisting of loans to the Exchequer from the Bank of England, and from the various public departments which permit temporary use of their idle funds.

At a time when disbursements are in excess of receipts the Exchequer has resort both to borrowing at the Bank, and the sale of treasury bills. As between these two forms of "floating debt", overdrafts at the Bank have potentially the greater effect on the money market. There is virtually no limit¹ upon the extent to which the government's right to draw may be increased by agreement between it and the

¹ Except the total appropriations made by Parliament.

Bank. This newly created credit comes into circulation through government drafts, finds its way into the banks, and finally increases their deposits at the Central Bank. If these Ways and Means Advances are long continued the tendency therefore is toward a flow from constantly replenished "public" to "private" deposits, which in their turn increase the lending power of the banks in the ratio which their accounts at the Bank usually bear to their deposit liabilities. However that may be, Ways and Means Advances from the Bank of England have now become merely a temporary expedient, overdrafts of Exchequer accounts being promptly repaid from tax revenue, or receipts from the sale of bills. The ultimate effect of tax payments, and the placing of short dated treasury bills (whether banks or public buy them) is of course to reduce banking reserves at the central institution, thereby cancelling the above-mentioned inflationary forces set in motion by Ways and Means Advances.¹ So used, the advances are only a convenient means of tiding over week to week Exchequer shortages, and leave the money market as though the equilibrium of government receipts and disbursements were attained solely by the sale and retirement of treasury bills. When receipts are in excess of disbursements, the purchase of bills by the government, or the failure to re-issue them after redemption tends to release funds which would otherwise be withdrawn for a period from the market, and *vice versa*.² However, notwithstanding considerable progress

¹ Of course the mere existence of a larger reserve ratio would not in itself, without pressure for credit from the clients of the banks, result in inflation.

² To analyze more closely, the collection of taxes causes a reduction of private banking balances in favor of the Exchequer's Bank of England accounts. The disbursement of revenues for ordinary and debt service expenses of the Government reduces the Exchequer's deposits and increases private banking accounts correspondingly. A balanced budget

made in later 1922 and early 1923 towards minimizing the disturbing effects of Exchequer activities, "normalcy" has not yet been so far restored that prevailing rates are principally a reflection of commercial as against fiscal needs.

Whereas in the "boom" period of 1919-1920 Ways and Means Advances from the Bank to the government were continued for long times and in large amounts,¹ they are now, as stated before, reduced to comparatively small sums and so regularly repaid that frequently they disappear altogether. Treasury bills, which really determine the size of the "floating debt", are outstanding in such huge amount²

would not, therefore, greatly disturb the money market, or the purchasing power of the people, except for the effect of temporary displacement when the intake and outgo are not simultaneous or of even level. To cushion these temporary displacements, giving the government needed revenue in times of shortage, and a useful means of employing idle funds in times of plenty, the treasury bill is the best device.

At times of shortage the Exchequer avoids accumulating Ways and Means Advances by taking from the public, through the sale of treasury bills, an amount equivalent to the excess over current revenue, of its disbursements to the public. This has the same compensatory effect in temporarily cancelling purchasing power (through the drawing down of bank balances) as the payment of taxes. When surplus funds accumulate in the Exchequer accounts, the process is reversed.³ On the other hand, if the bills are sold to the banks, as they have been in great quantity in England, the net result is merely to lower the ratio of banks' reserves to their deposit liabilities, and perhaps to lessen the funds available for loans in the bill market. An equivalent amount of purchasing power would not in this case be cancelled, and the same thing is true if the treasury bills lodge with discount companies and brokers. It is fruitless to push the analysis further, but the above suggests a few of the underlying complications in a subject discussed so much and understood so little.

¹ Even after the time when such advances represented in part funds borrowed for public uses from the market by the Bank.

² The total "floating debt" at the end of 1921 was £1,259,840,000, of which £1,059,806,000 consisted of treasury bills. At the end of 1922 it stood at £947,051,500, of which £719,040,000 was in treasury bills. Before the war the average figure rarely exceeded £30,000,000.

that the mere operations of keeping it afloat (i. e. redeeming and re-issuing) make a considerable impression on the money market. In fact, until treasury bills were put out on the tender basis¹ in April, 1921, the rate at which the Exchequer offered its vast quantities of short-dated paper actually determined the bank and discount rates; and the break in the post-Armistice trade boom in 1920 was precipitated by the drastic rise in the Bank of England official discount and other rates consequent upon the very liberal terms under which treasury bills were floated.

Since the spring of 1921, the government has abandoned its immediate control of discount rates, and paid for its short-time loans only what the market dictated. From mid-1921 to mid-1922, large amounts of treasury bonds (generally of 5 to 10 years maturity) were sold with the object of refunding a goodly portion of the "floating debt" at the lower rates then prevailing; and since March, 1922 these have also been marketed on a "tender" basis. Whether or not the treasury bonds were floated with a further intention on the part of the authorities of strengthening sterling by continued deflation, the result has certainly been to reduce idle bank balances which might otherwise have been later used to effect purchases. In times of more active trade the government would have less inducement, in the way of lower rates, for stabilizing its debt; and any exchange on the same scale of long for short time securities would seriously hamper trade. Furthermore, the treasury bill is now

¹ I. e., the Exchequer, instead of determining the rate and selling the bills "on tap" to any one willing to buy them at the fixed price, now offers a maximum amount weekly and assigns those issued to the highest bidders. In this way the treasury bill rates rather follow, than fix, the market rates and the government borrows its funds at lower cost. Present "tap" rates, at which further amounts of treasury bills are sold between the weekly tenders are fractionally below the average rate of the latest tenders accepted, and therefore depend in their turn upon broader market forces.

virtually a form of currency. Convenient denominations and maturities, coupled with absolute safety, make it an ideal type of bill for discount and collateral loan purposes, and it would be difficult to find a satisfactory substitute if the "floating" debt were greatly reduced.

The Exchequer, therefore, still holds the whip hand in the money market, although it does not now use its controlling power. It needs only to cut deeper into the weekly tenders of treasury bills and bonds to stiffen rates by selling more at a higher discount. In studying the many factors bearing upon London's facilities for long and short-time credit, the student should closely watch the average Ways and Means Advances, the volume of treasury bills outstanding, the state of the "public" (government) deposits at the Bank of England, and the ways in which these "public" deposits are being built up or maintained.

III. THE JOINT STOCK BANKS

As against the "public deposits" at the Bank of England stand the "private deposits", which embody the reserves of the joint-stock banks, and the balances which the central bank holds for other financial institutions as well as a number of private clients. It is the practice now, as formerly, for reserves to be kept with the Bank of England, except that part which each bank's experience leads it to retain in its till, and the balances which the ordinary course of its business necessitates in other banks. In their published balance sheets English banks fail to distinguish between cash on hand and funds with the Bank; but the item appearing as "Balances with, and cheques in course of collection on other banks in the United Kingdom" is generally about one-third of the "Cash and Balance at Bank of England" entry.

The great joint-stock banks have come to share with the

Bank of England the task of balancing and directing the mechanism of the entire financial system. Active competition exists between them, and the United Kingdom is covered with a network of branches. So rapid has been the process of affiliation and amalgamation in recent years that there are to-day fewer important independent banks than in Canada, while the decentralized American system offers no parallel whatever. Despite the fact that the "Big Five" tower above it in size, and compete with it in the private departments of its business, the Bank of England retains its historical prestige and its influence is perhaps more continuously felt in the discount and loan market than that of our Federal Reserve banks. This is due to the comparative decentralization, from the English point of view, of even our present system; the lateness of the change; and a conservatism in dominating the money market which stands in sharp contrast with the Bank's vigorous policy in time of stress.

The English joint-stock bank is a "commercial" bank in the American sense. While its investment account is generally heavier than that of the American bank represented in London, its business is primarily of the loan, discount and acceptance type. It is not possible to distinguish between the dozen or so important English institutions—as one can between the French—which ones are doing a "deposit" business and which go in for industrial banking. The close affiliation of the leading German banks with manufacturing and commercial enterprises finds no counterpart in England. The heavy commitments of the dwindling number of English joint-stock banks, not only to their own depositors and shareholders, but also to merchants and bankers throughout the world, compel them to keep a greater portion of their assets in liquid form and to avoid entangling alliances with "big business". This is particu-

larly true of the dominating "Big Five" among English joint-stock banks, with whom, as with the Bank of England, most other banks keep accounts. The policy pursued by Continental banks of locking up a larger part of their funds in bonds, and even stocks, and of pledging themselves to certain issues, is partly justified by the greater margin of subscribed capital on which they work, and by the fact that deposits cannot be withdrawn on demand as generally as in England.

The Scotch and Irish joint-stock banks form fairly distinct groups, although, as appears in Chapter II, there has been a considerable tying-up of Scottish institutions with various ones of the "Big Five" during recent years. Any sketch of present-day British banking would also have to describe the postal and trustee savings banks, and the private banks. The former are so unimportant in a commercial sense, and the latter have been so rapidly absorbed by joint-stock banks, and particularly the "Big Five", that a brief conspectus can omit them. The functions of private banks are the same as those of the joint stock variety, and only three of the important London banks are now unlimited, or "private" companies. These are Coutts & Company, Cox and Company, and Glyn, Mills and Currie. The first and third are members of the Bankers' Clearing House; since 1920, Coutts and Company have been affiliated with the National Provincial and Union Bank, and in 1923 Lloyds has taken over Cox & Company.

IV. THE DISCOUNT HOUSES

The Discount Houses and Bill Brokers work closely with the banks as intermediaries between buyers and sellers of commercial paper of which at least the larger companies are able to offer wide variety in maturities and names, with the additional weight of their own endorsement. Discount and

bill houses are generally private firms or companies. Some of them are merely "running" brokers, while others carry a considerable stock in trade by means of loans from the banks. The larger firms, and those few incorporated as public companies, do this regularly. The principal groups operating in London to-day are given in Appendix II.

The joint-stock banks, then, depend upon the discount market and its special representatives for secure and profitable employment of their "quick assets". If, as one leading London bank director recently stated, "The great English banks are solid because their position is liquid!" this element of strength is due to the safety with which call loans are placed upon commercial paper, chiefly prime bills and trade acceptances, and the soundness of the short-dated discounts which they make. Loans at call or short notice are more commonly placed on commercial paper and acceptance collateral in England than America, because of the practice of fortnightly settlement on the London exchange, which renders contango loans less liquid than under the daily settlement of the American system. A better organized market for bills has enabled London banks to rest their current funds on the broad basis of trade and industry. Moreover, the elasticity of the British system is chiefly felt through the agencies of the bill market. When the banks need cash they call their loans with discount houses, which turn to the Bank of England (if pressed for funds) and transfer to the accounts of the joint-stock banks from their own balances with that institution the credit obtained for rediscounting there. The joint-stock banks, therefore, frequently tap the central reserve to meet their varying needs through the mediation of discount houses. The foundation of the discount market is really the Bank of England, the extent of whose deposit credits for every English bank ultimately determines its lending power.

V. MERCHANT BANKERS AND ACCEPTANCE HOUSES

The Merchant Bankers,¹ still private companies in the main, continue a most important factor in the creation of acceptances; although because of the keen interest taken by the large banks in overseas service and foreign exchange operations since the pioneer work of the late Sir Edward Holden, they have been in a way, especially in 1919-1920, to lose their dominant position.² Generations of experience in foreign countries gave them intimate knowledge of overseas firms and conditions when the deposit banks were smaller, and less interested in foreign business than in consolidating their domestic position.

This competition of the banks has arisen recently rather from the desire to accommodate their domestic clients than to take over functions which by common consent belong especially to the merchant bankers. That it has its limits is shown in Chapter VII.

¹ See Appendix II.

² A prominent bill broker in London has recently estimated that the total of bills outstanding in August, 1914 was approximately £350,000,000 of which only £50-60,000,000 represented the acceptances of British deposit banks, although the latter carried in their portfolios about £120,000,000 of such bills. He further states "During the period of actual fighting acceptance business fell very much, not only because of the restriction of sea-borne commerce, but because the Government became more and more the principal buyer of everything, and the Government conducted its business on what it described as a cash basis. After the war, the volume of bills rose again, and touched, I will guess, the pre-war figure in 1919 Of this figure, the banks had accepted nearly £170,000,000. Their proportion (of acceptances) had in fact increased roughly from one-seventh to one-half of the whole acceptance business at that date." Early in 1923 he places the average outstanding acceptances between £175-225,000,000, with perhaps the same proportion accepted by banks as in 1919.

VI. ISSUING HOUSES

Issuing Houses are generally private companies many of which also conduct an extensive acceptance business. In the field of underwriting and floating loans the joint-stock banks do not compete.¹ A list of important companies is given in Appendix II.

The British Shareholders Trust, organized in 1916, is a new departure among British underwriting and issuing groups. It is a limited company whose shareholding affiliated companies are composed principally of country stock-brokers' clients. It has been launched to introduce cooperative principles into business of this kind; and to mobilize more effectively the participating power of provincial investors and issuing houses in order that they and their brokers might share in promising issues on terms of equality with London firms. In part, also, it was a patriotic attempt during the war to establish a *bona fide* British issuing corporation that could compare favorably with any of the great private houses which have generally been affiliated with Continental and American interests or dominated by people of other than British birth. As yet, the issuing activities of the new company have been mainly of a domestic character.

VII. INVESTMENT AND FINANCIAL TRUSTS

These companies continually participate in underwriting new issues, and the recently organized British Trusts Association² has for its object furthering cooperation along this line among its shareholding trusts. Because of their great importance as holders and distributors of foreign securities, companies of these types are described at length in Chapters VIII to XIV. A list of British investment trusts, which

¹ Except for a certain amount of underwriting in the case of securities of trustee standard.

² Chapter ix.

are conservatively managed organizations ordinarily deriving their revenue chiefly from foreign stocks and bonds held as investments, is given in Appendix IV.

* * * * *

Enough has been said to show that London retains her characteristic pre-war division of labor in the organization of credit facilities. Here and there, and especially among the great banks, there have been tendencies to broaden activities and even encroach upon the formerly almost exclusive domain of other groups. However, for reasons given in the following chapters, London remains a well co-ordinated system of complementary institutions. Though she has lost to New York her leadership in foreign financing,¹ she will be prepared to contest the supremacy of her great rival in years to come,—while as long as her discount facilities remain so far superior, sterling bills must continue the principal medium of international payments.

¹ A recent compilation made by the writer shows the equivalent amounts, in dollars, of New York's and London's *new foreign and colonial public loans*, and *new foreign domestic and colonial commercial and industrial issues* as follows for the first ten months of 1922:

TEN MONTHS FROM JANUARY 1 TO OCTOBER 31, 1922					
(CONVERSION · £ INTO \$ AT MEAN RATE OF \$4.32)					
<i>Capital Issues in U. K.</i>			<i>Capital Issues in U. S.</i>		
Total		Monthly Average	Total		Monthly Average
£	\$	\$	\$	\$	
196,091,000 =		851,001,000	85,100,100	2,883,814,000	288,381,400
<i>Home</i>	<i>Empire</i>	<i>Foreign</i>	<i>Home</i>	<i>Colonies</i>	<i>Foreign</i>
\$	\$	\$	\$	\$	\$
277,650,000	333,769,000	239,553,000	2,283,742,000	37,087,000	562,985,000
32.5%	39.5%	28%	79.2%	1.2%	19.6%

CHAPTER II

RECENT CENTRALIZING TENDENCIES

It is a high tribute to the soundness of British institutions that the greatest financial strain to which any money center has ever been subjected has been weathered with almost no fundamental changes of structure.¹ Nevertheless, the war and after-war periods have seen a number of significant developments bearing upon foreign trade financing which it is the purpose of this chapter to discuss.

By a process of absorption, amalgamation, and affiliation, the great British banks have been continuously deepening their roots and broadening their branches from 1917 to 1921.² It is only in 1922 that this feverish activity toward extension reached a definite lull. The joint-stock banks are now taking advantage of the comparatively slack industrial and trade demands to consolidate their newly-won positions and perfect their organization.

I. The absorption of provincial banks by the larger companies in the joint stock group is a story familiar to any observer of British banking in the last fifty years. The great banks, in extending their territorial grip, have spread

¹ There has been some agitation for changing the inelastic note issue system established by the Act of 1844. However, as deposits are the fundamental form of bank credit in Great Britain the bank-note issue will probably continue on the gold basis. The currency notes of ten shillings and one pound, issued by the Treasury during and since the war, form a convenient medium of exchange in place of the gold pieces formerly carried.

² See Appendix I.

out from London to all parts of the country, taking over the old established but less progressive private banks and absorbing the provincial joint-stock companies. As a consequence, the United Kingdom at the outbreak of war was served by the most highly concentrated system in the world, even the smallest towns often boasting more than one branch of great London banks. Moreover, the retention of the former staff of the private bank taken over has resulted in the greatest degree of personal consideration consistent with such extensive operation.

The last year or two of the war brought a different set of motives for the recent movement toward further concentration. The rise of prices, the feverish activity of industries stimulated by war demand, the extensive credit arrangements undertaken with England's Allies, her Dominions and her Colonies, and the anticipation of enhanced trade following the peace, impressed the leaders of her banking world with the need of further consolidating their position. Whereas the old movement was directed toward covering a broader geographical area, the recent steps toward centralization, though often hastily conceived and executed, were intended to furnish business men with credit needed for their higher costs and larger turnover, and to afford them more direct facilities for foreign business.

Smaller banks had found it difficult, especially during 1919 and early 1920, to give their "country" clients the full credit which they could legitimately claim. The taking over of local institutions has enabled the big banks to put their strength back of local needs, thus making it unnecessary for merchants and manufacturers working on a large scale to "split" their accounts.

There has been a feeling during recent years in powerful British banking circles that the foreign institutions were encroaching a bit too freely upon business domestic in its

origin. A desire to afford "all-British" facilities has been coupled with the conviction that the interests of British business men would be better served thereby. The great banks have actively taken up the foreign exchange and acceptance business, and enlarged their direct foreign and colonial interests, as noted in Chapter VII. Thus a manufacturer of a provincial town may deal directly through the local office with a bank which can intelligently arrange for the entire scope of his overseas service. This has not meant a diminishing importance of "foreign" or British banks specializing in certain overseas areas. It has involved the closer affiliation of the joint-stock banks with such institutions in order that the credit circle may have less gaps to bridge. As for the latter, it may be said that in the last few years activities have been more exclusively in the foreign trade field which they were primarily organized to serve.

II. Side by side with this absorption of smaller banks has gone an extensive amalgamation, and affiliation of the large British joint-stock banks. The "Big Five" are for the most part mergers effected during or since the war, and to one familiar with the dominant institutions in 1914 the respective banks merged can generally be guessed by the longer names of their successors. In the chronological table of amalgamations given in Appendix I it will be seen that since 1917 the "Big Five" among the London Clearing Banks have obtained control, through stock ownership, of three of the note-issuing Scottish banks, although the latter retain their identity. The movement has been less marked, though nevertheless noticeable, toward affiliation with Irish banks.

One interesting result of these consolidations has been the further centralization of note issue. The Act of 1844, and a subsequent Act in the following year, left to a desig-

nated number of private and joint-stock banks a restricted right of issue based upon prior amounts outstanding. At the present time, eight Scottish banks still have a total issue right of approximately £2,675,000. Three of these are now controlled by London banks which have probably kept their identity in order that the issue right should not lapse through amalgamation. In 1921, but one private bank in England and Wales had such right, and with its absorption in that year by Lloyds Bank Ltd., the Bank of England now has a complete monopoly.

The results of these centralizing processes may be indicated in a few summary figures. Since the year before the war, the number of individual joint-stock banks in England and Wales has decreased by more than half. As against nearly forty banks doing an ordinary deposit banking business in 1913 there are now about fifteen. Although the eight principal Scottish banks, as well as the leading Irish banks, have kept their identity, at least three of the former are now controlled from London and by share ownership and exchange of directors there are further ties with London institutions.

The following quotation from the *Manchester Guardian Commercial* of July 13, 1922, states the present position of the "Big Five":

Head and shoulders above the rest of London Joint Stock institutions stand, of course, the five banks now known as the "Big Five"—Barclays, Lloyds, the London County Westminster and Parr's, the London Joint City and Midland, and the National Provincial and Union. What were in 1913 seventeen separate concerns are now merged in these five banks, and their present-day importance may be measured by the fact that, while in 1913 the combined deposits of the five parent banks of the modern "Big Five" amounted to £399 millions out of a total for the United Kingdom of £1,070 millions, or 37%, by

the end of 1921 this percentage had increased to 66, and the deposits of the "Big Five" accounted for £1,644 millions out of a total of £2,479 millions—and even these figures take no account of the affiliated banks. Again, the ten banks which are members of the London Bankers Clearing House, whose membership just before the war was seventeen, account among them for some £1,850 millions out of those £2,479 millions of deposits, that is, for over three-quarters of the whole, the remaining one-quarter being almost wholly the deposits of the Scottish and Irish Banks.

III. English and Scottish banks have latterly taken a much greater interest in foreign operations, as the many recent affiliations with overseas companies and the new foreign agencies and subsidiary banks will testify. The leaders in this have of course been the London joint-stock banks. The chronological tables in Appendix I, Appendix III, and the statement of present banking affiliations in Chapter VII will reveal the chief interests of each of the "Big Five", and disclose the relations of the principal overseas banks with London Clearing Banks. This linking-up process, both internal and external, has of late been so pronounced that Sir John Ferguson of Lloyds Bank has recently declared of the joint-stock banks: "Yesterday we served our own country, to-day we serve the world."

IV. The girding of loins for increased foreign activity and better coordinated domestic service has had its reflection in the Bank of England. The policy of the central bank now favors a greater continuity and broader basis of administration.

It is significant that several officials of overseas banks have recently been elected to the Directorate of the Bank. Its Court now includes officers of the British Trade Corporation, and the Hongkong and Shanghai Banking Corporation, as well as one or two Dominion representatives.

These are the first members of official staffs to hold such positions; and they have entered the Directorate at a time when relations of a closer and more personal character were being formed with other powerful banks. Continuity of policy is promoted by the recent break in the Bank's tradition of changing Governors at two-year intervals. It is such changes as these in the policies of England's venerable Bank that lead the *London Times* to hope for steady progress "towards the goal of a compact and coordinated Imperial banking system". (*Trade Supplement*, June 3, 1922.)

Exigencies of the war have also led the Bank to become a shareholder in other banks for the first time in its history. It now controls the new Anglo-Austrian Bank which was organized in the early months of 1922. This is an English limited company formed to take over the business of the old Anglo-Austrian Bank whose London establishment was sequestered early in the war because of its enemy domicile. The large sterling liabilities of the latter bank were mainly to the Bank of England, which, with government backing, had guaranteed the ultimate payment of many pre-moratorium bills, thus stabilizing the London market in the unsettled days of 1914. The organization of the new bank provides for shareholders of the former by exchange of stock, and protects the Bank of England's interests by certificates of indebtedness, and a block of ordinary stock. The domination of the Bank of England is organic, as the latter nominates four members of the board of directors, and is placed in perpetual control by the Articles of Association. The new Anglo-Austrian Bank in turn controls the new Anglo-Czech Bank, formed to take over the branches of the former Anglo-Austrian Bank in Czecho-Slovakia. The Anglo-Czech Bank is a Czech institution with head office in Prague, but, in addition to the Bank of England, it has the support of powerful British interests. Both the parent and the Czech Bank now have London offices.

V. Large-scale banking is of course only the counterpart of large-scale business. The growth of industrial combines must be attended by greater banking units needed to afford the credit, and this is especially the case in a small but highly industrialized country where there are no legal inhibitions of branch banking and interlocking directorates. To this should be added the greater demand, in proportion to turnover, which resulted from war's soaring prices, and the need of longer credits because of labor delays, slow payments and rail congestion. The increase in banking capital which this post-war centripetal movement necessitated has been brought about in part by various steps to popularize bank shares. While these have long stood as among the most conservative investments in the United Kingdom, the large denomination and the concurrent liability have prevented their appeal to any but the more experienced and well-to-do, who were indifferent about the immediate marketability of their holdings.

The liability of the bank shareholder has been a two-fold one. In the first place, he was responsible for further "calls" in proportion to his holdings to give the bank added working capital. In the second place, there was usually an added liability in the event of winding-up. These are known respectively as the "callable" and "reserve" liability, and the responsibilities connected with different stocks were not generally understood. Moreover, it has been established that the liability of the holder may not always be shifted by quick sale. For these reasons the large banks, when providing fresh capital for broader operations, have lately sought to realize on the general confidence they enjoy by offering shares of manageable amount and abolishing or reducing the uncalled and "reserve" liability.

This is particularly the case in the realm of overseas and foreign banking, as will be seen from the following repre-

sentative list of British and Colonial banks whose shares are of small par value, and carry little if any uncalled liability:

UNCALLED LIABILITIES IN LEADING BRITISH BANK SHARES

(A) LONDON JOINT STOCK BANKS

<i>Bank</i>	<i>Denomination of share</i>	<i>Amount paid up</i>
	£	£
Barclays—"A" Stock	4	4
"B" Stock	1	1
Lloyds	5	1 ¹
London and Liverpool Bank of Commerce	10	10
London Joint City and Midland	2½	2½
Westminster	1	1
Williams Deacons—"A" stock	5	1
"B" stock	1	1

(B) BANKS INCORPORATED UNDER ROYAL CHARTER OR THE ENGLISH COMPANIES ACTS, BUT OPERATING IN CERTAIN FOREIGN AREAS

<i>Bank</i>	<i>Denomination of share</i>	<i>Amount paid up</i>
	£	£
Anglo-South American	10	5
Bank of Australasia	5	5
Bank of Roumania	6	6
Chartered Bank of India, Australia and China	5	5
Eastern Bank	10	5
Imperial Bank of Persia	6½	6½
Ionian Bank	5	5

(C) BANKS ORGANIZED UNDER THE ENGLISH COMPANIES ACTS FOR GENERAL FOREIGN OPERATIONS

<i>Bank</i>	<i>Denomination of share</i>	<i>Amount paid up</i>
	£	£
British Bank for Foreign Trade	3½	3½
British Overseas Bank ("A" Ordinary Shares)	5	5
British Trade Corporation	10	10

¹ £9 or more per share is "reserve" liability. The bank is an old established institution and there is but a remote possibility of its winding-up. Moreover, the price of the shares is far above the amount paid in, thus proportionally reducing the liability.

(D) BANKS ORGANIZED UNDER DOMINION OR COLONIAL CHARTER

<i>Bank</i>	<i>Denomination of share £</i>	<i>Amount paid up £</i>
Australian Bank of Commerce	1	1
Bank of New South Wales	20	20
Bank of New Zealand	1	1
Bank of Victoria	10	5
National Bank of Australasia	8	5
National Bank of Egypt	10	10
National Bank of South Africa	10	10

With the exception of the National Provincial and Union, whose reserve liabilities are somewhat heavier, every one of the "Big Five" appears in list (A), and it will be seen that the low par value of their shares places them within reach of the humble investor who has learned to handle securities during the war period. The uncalled liability of practically all the leading institutions is now nominal only. The liability among several has been materially reduced during the last two years, and the recent strengthening in gilt-edged investments reduces the weight of the liability remaining in proportion to the increase in the price of the stock. The above lists are not inclusive of all British institutions having little or no added liability on their shares. A careful examination of the leading banks operating in the Colonies, Dominions, and foreign countries will show that fully two-thirds of them have no outstanding liability. In the recent development of overseas banking the principle of reserve capital does not appear to the extent common among domestic institutions. It is also interesting to note the low par value of overseas banking shares, which must more and more be issued with the middle-class investor in mind.

* * * * *

As a result of recent amalgamations described in Appendix I, the banks of Great Britain now present a picture of

unstable equilibrium in which the most powerful institutions of their kind in the world work side by side with a rapidly diminishing number of independent private and provincial joint-stock banks. It is difficult to say whether this centralizing movement has yet spent its force, and how many of the remaining old-time houses may be absorbed in the next few years. Roughly speaking, the "Big Five" now show forty per cent of the total resources of British banks represented in London.¹ Even exclusive of the private, and the Scottish and Irish, banks this figure reaches the gigantic sum of £3,700,000,000, which is approximately distributed as follows:

	%
a. The Bank of England	3.80
b. Principal English Joint Stock Banks ..	54.00
("The Big Five" 47.25%)	
c. Principal banks organized under the English Companies Acts, or Royal Charter (head office, London)—and operating primarily in the Dominions	9.75
d. Principal banks organized under the English Companies Acts, or Royal Charter (head office, London)—and operating primarily in certain Foreign areas	5.70
e. Principal banks organized under Eng- lish Companies Acts, or Royal Charter (head office, London)—for the purpose of promoting foreign trade generally	1.50
f. Important Dominion Banks organized under Dominion Acts, or Charters and maintaining offices in London	25.25
	100.00

Of the total assets (or liabilities) of banks in the British

¹ Appendix II.

Empire (or at least those important enough to have a London office) five banks, therefore, control from forty to fifty per cent; and among the English joint-stock banks they carry over eighty-five per cent of the resources.

The next table shows the average distribution in 1922 of certain balance-sheet items for each of the groups listed above.¹

<i>Total Assets or Liabilities</i>	<i>Percentage of Each Item to Total Assets</i>		
	<i>Current Deposit and Other Accounts</i>	<i>Advances and Bills dis- counted</i>	<i>Investments</i>
(b) 2,070,863,000	92	59	21.5
(c) 362,041,000	72	53	9.5
(d) 207,686,000	60	37	9
(e) 50,920,000	51	35	15.5
(f) 931,198,000	90	55	18

It is natural that the percentages of the second and third columns (Deposits, and Advances and Bills Discounted) should vary in unison. Moreover, there is a similarity in the relative importance of the several items for the groups (b) and (f). This is to be expected, for both are primarily domestic deposit and commercial banks—the first group in the United Kingdom, and the last group in the Dominions. On the other hand, “Current Deposit and Other Accounts” are of less importance for groups (c), (d) and (e). The reason for this is the international character of their business, which involves commitments for drafts and letters of credit; acceptances, endorsements and guarantees; and bills for collection and other “bills payable” arising from their foreign service. These items are a far greater part of total liabilities than for banks serving primarily a domestic clientele. This is especially true of the new banks engaged in

¹ Except the Bank of England (a.) whose peculiar relationship with the other banks would render such comparisons invalid.

general overseas business. For the latter especially, capital is also a relatively heavier item, owing to the lateness of their origin, and the caution which their managers have shown.¹

The third and fourth columns suggest that the assets of banks engaged chiefly, or largely, in an international business are generally more liquid than those operating primarily in the less disturbed domestic field. The lower percentages of "Advances and Bills Discounted" may be accounted for partly by heavier proportional commitments on acceptances, endorsements and guarantees. The "Investment" percentages would not be indicative of the relative interest of the several groups in industrial banking (even if British banks were active in company financing), as the complications of public finance vitiate such comparisons.

A mere addition of the figures given in current balance sheets as total resources, or liabilities, must of course contain many duplications. The "private deposits" of the Bank of England appear in separate bank statements as a part of their reserves; "investments" in the balance sheet of one bank may represent its holding of the capital stock of another, and so on. If three and a half to four billions sterling seems too liberal a figure as a broad estimate of the business credit capacity of British financial institutions represented in London, it must be borne in mind that several most important categories are omitted in the totals dealt with heretofore. These are:

The numerous private banking, accepting, issuing and discount companies not publishing statements. (Appendix II.)

The Investment Trusts, whose total capital is in the neighborhood of £100,000,000. (Chapter VIII.) and

¹ The English domestic joint-stock banks have comparatively much slimmer capital and reserve margins than before the war.

Financial, Land and Investment Companies, whose capital is from £150,000,000 to £200,000,000. (Chapter VIII.)

Finally, we should not forget the numerous foreign banks having branches in London and transacting a considerable volume of business there. London is better served in this respect than any other city in the world.

PART II
BANKING CREDIT
OVERSEAS FACILITIES OF BRITISH BANKS

CHAPTER III

ADAPTATION TO POST-WAR CREDIT NEEDS

RECENT years have seen new institutions growing in Great Britain, and old ones extending their services to increase the foreign credit facilities enjoyed by British traders. The occasion has lain not only in demands of war and the huge credit turnover immediately following, but also in the will to realize an all-British system of banking, which could meet the far-flung needs of imperial and world trade without too vital reliance on foreign interests and companies save in the countries of their domicile.

Specialization was as marked in the British financial world before the war as it is at present—and perhaps more so in the field of foreign-trade financing. One concomitant of this was the surprising extent to which great commercial and deposit banks relied upon institutions operating overseas, whether British or foreign. They leaned heavily upon German banks with London offices for Continental intelligence, and made use of exchange, collection and agency facilities provided by Colonial, Dominion, and European banks. The degree of this dependence was clearly revealed after the war, when uncertain exchanges and chaotic political conditions necessitated a more efficient range of services than ever before. At the same time, the failure to rehabilitate former enemy banks and the impaired efficiency of other foreign institutions which had long been cogs in the London credit mechanism left embarrassing gaps in England's facilities for foreign trade financing.

One must look in several directions to classify the steps taken toward better provision for the Empire's trade.¹

(a) Most important of all is the steady cultivation of overseas interests on the part of the great banks, whose policies are described in detail in Chapter VII. A keen American observer, acquainted with British banking before and after the war, states it succinctly in the following terms:

There is one change, however, which constitutes a greater break with the past than is perhaps fully realized. This is the enhanced interest and participation taken by British bankers in international finance. Formerly the banker accepted the instructions of a customer in respect to his foreign financial requirements and executed them through the agency of a correspondent. The correspondent furnished the necessary information, handled the details of the transaction, collected and remitted the proceeds of bills. Now the banks have established departments *ad hoc*: have opened in many instances branches² in foreign centers, and do through these branches what they formerly did through outside agencies. The tendency is to get closer to industry and trade, to foster business, to render increased "service" to British manufacturers.

(b) Several smaller banks have committed themselves to the cooperative principle in developing their overseas facilities, and created the British Overseas Bank as a common foreign department. This company is dealt with in Chapter VI; its importance is less on account of its present business than because it is a hopeful experiment in collaboration among independent banks and may be fruitful of other attempts of the same nature.

¹ The reader will find Appendix III helpful throughout the following discussion.

² As is seen in Chapter VII these are now technically subsidiary companies operating overseas.

(c) The Government itself has taken a hand, encouraging trade directly by the "Export Credits" and "Trade Facilities" Acts, and indirectly by subsidizing or sponsoring such companies as the British Italian Corporation and the British Trade Corporation¹ in the ways cited below.

Government schemes for credit aid of one kind or another rest upon the desire to absorb a portion of the appalling numbers in England's army of the unemployed by stimulating industry. As mentioned above, they have centered in the "Export Credits" and "Trade Facilities" Acts; and as these are temporary measures, little attention need be devoted to their details. The former, technically known as the "Overseas Trade (Credits and Insurance) Act" dates from August, 1920. The original plan was extended in mid-1921 by adding the power to give guarantees in export transactions; and since that date the Department of Overseas Trade has offered to exporters, under strict conditions, a variety of services, including the advancing of credits, the undertaking of credit insurance, and the provision of guarantees. The Act, which was to expire in September, 1922, has been extended for another twelve months with a view to its more liberal application. The Trade Facilities Act was passed in 1921 and it expired in

¹ See Chapter IV. This Company was organized under Royal Charter pursuant to recommendations made by a Departmental Committee of the Board of Trade. Beyond this it enjoyed no official aid.

The Government investment in the Commercial Bank of Siberia (a Treasury advance of £1,198,000 dates from February, 1918) was due to a determination to keep the Bank out of enemy hands rather than immediately to foster trade. Its affairs are inactive at the present time.

The reasons for lodging control of the new Anglo-Austrian Bank (and through it the Anglo-Czecho-Slovakian Bank) in the Bank of England are given in Chapter II. This was of course not a Government measure, as the Bank of England, though banker to the Government and holder of the nation's reserves, is a private institution in ownership and management.

November, 1922, only to be re-enacted for twelve months with broader provisions, under the aegis of the new government.

Reverting to the Exports Credits Act, it will be seen from the following table that results to date are disappointing, although the provisions have recently been made applicable to all countries, including those in the Empire:

EXPORT CREDITS

UNDER OVERSEAS TRADE, CREDITS AND INSURANCE, ACT OF 1920. FIGURES TO NEAREST THOUSAND

TOTAL TO OCT. 2, 1922

	<i>Advances</i>	<i>General</i>	<i>Specific</i>	<i>Guarantees</i>	<i>Totals</i>
	<i>Credits</i>	<i>Credits</i>	<i>Credits</i>		
	£	£	£	£	£
Applications					
Sanctioned	3,121	5,357	12,883	8.4	21,369
Amount taken	1,742 ¹	417	1,226	4.5	3,390

The chief commodities whose exports have been facilitated by these advances and guarantees are flax, cotton, woollen, and worsted yarns and manufactures; machinery; iron and steel and manufactures thereof; coal; and rubber products. Nevertheless, the smallness of amounts actually taken up prove the exporter's preference for ordinary agencies of trade financing. It is understood that the maximum of £26 million set in the Act will be extended if necessary, although this contingency seems unlikely. Of far greater importance are the proposals, as yet apparently fruitless, for banks and insurance companies to work out a system of private credit guarantees for exporters. It is still hoped that steps in this direction may have been taken when the Act expires, so that private companies will be prepared to afford immediate partial reimbursement in case of the im-

¹ For Austria, Finland, Bulgaria, Baltic Provinces, Poland, Jugoslavia, Roumania and Czecho-Slovakia.

porter's default, and the exporter may be spared the embarrassing delays which ordinary insurance entails before realization on the ultimate loss.¹

The Trade Facilities Act has been a more effective weapon, and some relief is anticipated through the recent extension of the scheme. In its earlier form provision was made for the government to guarantee the principal, or both principal and interest, of loans "to be applied towards the carrying-out of capital undertakings or in the purchase of articles manufactured in the United Kingdom required for the purposes of any such capital undertakings".² The recent renewal of the Act increases the maximum guarantee from £25 million to £50 million, of which some £22.5 million has already been utilized. There is no doubt that the public utility,³ electrical supply, and dock and harbor construction issues so guaranteed have been floated much more readily, and that employment has been to some extent stimulated in those and cognate lines. The guarantees, it will be noted, are not confined to domestic issues; and it is interesting that the Government introduced its Bill for the renewal of the Act in conjunction with the Austrian Loan, and Sudan Irrigation, guarantees.

(d) A number of new banks, for the most part of minor importance, have been formed for the purpose of specializing in foreign credits. It has been their aim to supple-

¹ See Chapter V.

² The purpose being to enable the issuing companies to float their loans with greater facility and at lower net cost. The Government does not make the advances. When applied to foreign issues the object is of course to further exports by expediting the placing of loans on the domestic market, whose proceeds will go to the purchase of goods fabricated in the United Kingdom.

³ These constitute the bulk of the guarantees, commercial projects obtaining less than 10% of the total. Underground railway extensions, and the electrification of suburban lines have had the lion's share.

ment the very extensive facilities which London has so long enjoyed through the Dominion Banks and those British Companies operating primarily in certain foreign areas.¹ Among the more important of these are the British Overseas Bank, the British Trade Corporation and their subsidiaries, to which the three subsequent chapters are devoted. Among the others are, in order of their formation:

- (1) The British Bank for Foreign Trade.² (Registered in 1911 as the Anglo-Russian Bank; present name adopted in 1912.)
- (2) The British Italian Corporation. (Registered in 1916. See below.)
- (3) The British and Foreign Mercantile Bank. (Registered in 1917. Paid-up capital £100,000.)
- (4) The Anglo-Baltic and Mediterranean Bank. (Registered in 1919. Recently converted into an investment trust. See Part III.)
- (5) The Western Bank. (Registered in 1919. Paid-up capital £200,000.)
- (6) The Peninsular & Oriental Banking Corporation. (Registered in 1920. See below.)
- (7) The British & North European Bank. (Established in 1920. Paid-up capital £500,300.)
- (8) Hambro's Bank. (An old house whose present organization dates from October, 1920. Paid-up capital £1,000,000. See below.)
- (9) The London & Eastern Trade Bank.³ (Registered in 1920. Subscribed and paid-up capital £500,200.)
- (10) Commercial Bank of the Near East. (Registered 1922. Affiliated Bank—Commercial Bank of Greece.)

¹ See Appendix II.

² Not of importance at present, as its business has been closely related to Russian interests.

³ This Bank, while unimportant at present, bids fair to establish itself as a going concern by reason of certain able men whom it has recently attracted to its staff.

(The new Anglo-Austrian and Anglo-Czech Banks are 1922 organizations. The Anglo-Polish Bank is described in Chapter VI as a subsidiary of the British Overseas Bank.)

It remains to describe in somewhat greater detail three of the above-mentioned companies which are taking their places as important institutions, but for which space cannot be found in subsequent chapters.

The BRITISH ITALIAN CORPORATION, which was organized in 1916, has from the beginning been identified with the *Compagnia Italo-Britannica*, whose whole stock has recently been acquired by it. Each bank enjoyed the official support of its government. His Majesty's Government agreed to an annual subsidy of £50,000 for the first ten years, or to five per cent of the paid-up capital in case that were not £1,000,000. This was a grant without interest and the Treasury was to be reimbursed, in a winding-up, only after shareholders had received their entire invested capital compounded at five per cent. The support of banks has been so cordial that the subsidy is no longer necessary. By a new arrangement arrived at with H. M. Government, the sum of £233,418 received in previous years has now become the property of the British Italian Corporation, and this amount stands as "Reserve". The last payment of £50,000 under the earlier agreement was made on 30th November, 1921, and this has been used to write off doubtful accounts.

Two significant facts appear in connection with these companies. The first is that they have been organized for industrial rather than ordinary deposit-banking. The British Italian Corporation is not, therefore, exclusively a commercial bank in the ordinary English sense, but follows the lines of certain Continental banks. The second is the wide participation of London banks in the stock of the parent company. No less than 23 prominent British institutions are shareholders, the prime movers being Lloyds and the Westminster Bank.

The Credito Italiano, which was interested in the Italian subsidiary, had associated other Italian banks with it in the enterprise, and the withdrawal of the former bank from active participation in the Compagnia Italo-Britannica does not entirely rob this of its significance as a step toward greater cooperation among the financial institutions of the two countries.

The authorized capital of the British Italian Corporation is £1,000,000 in shares of £20, all of which has been privately subscribed (principally by banks) and called up. Its chief services to date have been in accepting and endorsing bills, negotiating paper drawn on other banks, and guaranteeing payments for British products, especially ships purchased by Italian interests. It has aided in financing Italian imports of raw materials from the Dominions, chiefly Australian wool.

BRITISH ITALIAN CORPORATION

YEAR TO DECEMBER 31

(1)	(2)	(3)	(4)
	<i>Total Liabilities (or assets)</i>	<i>Acceptances Guarantees, etc.</i>	<i>Dividend %</i>
1917	1,232,000	194,000	5
1918	1,685,000	432,000	4
1919	5,873,000	3,435,000	4
1920	9,196,000	6,330,000	4
1921	6,872,000	4,601,000	4

The above figures reveal a great expansion in columns 2 and 3 during 1919 and 1920, and, as might be expected, a sharp recession following. In view of the unsettled state of business since its establishment, it is conservative to say that the Company is giving a good account of itself and is probably launched on a useful career. In common with other banks, it has suffered during 1920 and early 1921 from the heavy depreciation of its securities, but is equally profiting from the material recent rise. Because its dealings

have been to such an extent with reliable Italian banks its losses have been moderate. The steadiness of its dividend bespeaks a conservative policy in distributing profits, and the Bank has shown wise foresight in accumulating reserve and profit balances.

The PENINSULAR AND ORIENTAL BANKING CORPORATION was registered in May, 1920. Its principal affiliated banks are given in Appendix III, and, as the name applies, it has been sponsored by the Peninsular and Oriental Steam Navigation Company. The special interests of this Bank in India¹ probably indicate a desire on the part of its affiliated banks in the "Big Five" group to effect better credit facilities with that part of the Empire. The authorized capital is £5,000,000 in shares of £10 denomination, and of this £2,524,160 has been allotted and called up. This gives the Peninsular and Oriental Banking Corporation the largest issued capital of all the recently organized or reconstituted general foreign trade banks, while in point of deposits it stands high.

PENINSULAR AND ORIENTAL BANKING CORPORATION

AS OF MARCH 31

(1)	(2)	(3)	(4)	(5)
	<i>Total Liabilities (or assets)</i>	<i>Advances Acceptances and Discounts</i>	<i>% of Dividend</i>	<i>High for £10 shares</i>
	£	£		£
1921	6,140,000	3,028,000	5	12 $\frac{1}{4}$
1922	12,910,000	8,211,000	5 $\frac{1}{2}$	

The Bank was organized after the critical period, and consequently what figures we have reveal a steady growth of business. With the support of its powerful London

¹ It has branches in Calcutta, Bombay, Madras and Karachi, as well as Shanghai, Hongkong, Singapore and Colombo; and it has recently taken over the Allahabad Bank.

affiliates the Bank will probably prove an appreciable factor in future trade with the Orient.

The present form of HAMBRO'S BANK is a union of C. J. Hambro & Son, a firm established over a hundred years ago, and the British Bank of Northern Commerce, which took place in October, 1920. The present title was adopted in August, 1921, because the name first chosen ("Hambro's Bank of Northern Commerce") was considered "prejudicial to the business of the Bank in southern and overseas countries, where the impression has been created that the international position of the Bank has been to some extent narrowed down".

The British Bank of Northern Commerce had been founded in February, 1912, to facilitate trading intercourse between the United Kingdom and Northern Europe. Because its business was conducted primarily with Scandinavian countries, the restrictions on neutral trade during the war greatly hampered its operations. A further disturbing factor was the depreciation of Norwegian and Danish currencies with relation to sterling. Notwithstanding these unfavorable factors, progress had been fairly satisfactory from 1918 to the time of the fusion, and it appears that the amalgamation has brought new business of a desirable character—as might be expected from the merging of a successful new undertaking with a long-established house. In fact, Hambro's Bank is doing one of the largest businesses of any of the new foreign-trade banks.

HAMBRO'S BANK

AS OF MARCH 31

	<i>Total Liabilities (or assets)</i>	<i>Loans, Advances and Acceptances</i>	<i>Dividend Per cent</i>
1921	27,757,000	14,313,000	22½% ¹
1922	22,381,000	10,751,000	15%

¹ 17½% on a capital of £500,000 and 5% on £300,000.

To conclude this brief sketch, the British banks operating overseas may be divided into three principal classes. First would come those great joint-stock banks primarily engaged in domestic business, but of late years extending their influence in foreign countries (especially the Continent) in the many ways illustrated in Chapter VII. Of these banks it may be said that their foreign experience in 1921 was not altogether happy. They suffered, as did certain American banks, with over-extended foreign commitments, although because of their greater familiarity with such matters, not quite as heavily in proportion to their interests. Exchange depreciation, or, what is more disastrous, exchange uncertainty; price recessions; speculation on Continental bourses; political disturbances and the unsettled state of international affairs all contributed to their difficulties. Nevertheless, the leading British banks have come through this period with unimpaired credit and an even stronger financial position. The inner reserves which enabled investment trusts¹ to maintain an even keel in dividends served the same purpose for the joint-stock banks of the United Kingdom even at a time when the heavy depreciation of securities required large sums to write off balance-sheet investment figures.

Secondly come the British banks which have long had their major interests abroad, although in many cases the head officers are in London. The exchange vicissitudes and trade difficulties of the 1920-1921 period have merely intensified problems already familiar to them. Their staffs were the best equipped in the world to handle such problems. Moreover, banks operating in less developed regions expect to share the lot of all business undertakings in reaping large profits and risking great losses. Heavy reserves

¹ Chapter XII.

have tided several of them over the crucial time, and their position today is stable.

Finally come the banks described in preceding paragraphs and the three following chapters. They are an attempt to adjust and coordinate present banking machinery to meet adequately the needs of British trade in all parts of the world. On the whole, they have been wisely administered. Dividends have been much lower than for older banks, but regular enough to give assurance for their future. The 1922 rise in gilt-edged securities is benefiting them equally with other banks, and they stand to gain financial strength when the general upturn comes. Especially in Central and Eastern Europe, in Russia and Asia, these new banks are in a way toward establishing England's favored financial position.

CHAPTER IV

THE BRITISH TRADE CORPORATION

INCORPORATED by Royal Charter in April, 1917, the British Trade Corporation was, in its earlier plans, perhaps the most ambitious among all the special banks founded since the war with the avowed object of operating in foreign fields. It was organized to carry out the recommendations of a Departmental Committee of the Board of Trade, whose terms of reference suggest the hopeful, if undefined, scope of the Corporation's activities — "To consider the best means of meeting the needs of British firms after the war as regards financial facilities for trade."

Something of the enthusiasm attending its first efforts is caught up in these statements made by the Governor in the First Annual Meeting (January 31, 1918):

We are genuinely desirous of assisting the export trade of the country by providing financial assistance as far as our means will permit; we are anxious to provide the commercial community with information that may come into our possession and that may not be readily available from other directions, and we hope that we may, when business revives, be made the pivot upon which important syndicates for great industrial developments at home and abroad may revolve.

Our measure of usefulness must not be judged by our present issued share capital, but rather by the parties by whom that capital is held, and the conviction of those who have the management of your affairs that—given success with the moneys now entrusted to us—there will be no difficulty in getting more when the necessity arises.

We do not pretend that we have a monopoly, in any sense of the word, and we do not claim that our Charter places us upon any exclusive pedestal; but we may, I think, properly maintain that we have started our enterprise at a time of depression and, having our funds in a liquid condition, we shall be able, with advantage to ourselves, to render financial assistance of a useful character.

We have with us among our Shareholders several of the great Joint Stock Banks carrying on business at home and abroad, and we note with satisfaction that since our advent some of the banks which are not to be found among our Shareholders have extended the sphere of their activities. I trust that the scheme of cooperation which made the German banks so great a power in the past will be followed by our Institutions, and that this Corporation may be made the medium for carrying through operations of magnitude.

From the enthusiasm of these earlier days to the cold awakening after the 1919-1920 "boom" seems a far call. To-day the Trade Corporation gives promise of considerable future usefulness; but little more. Because it is not a factor of great present importance, a general résumé of its activities, with suggestions here and there of the reasons for its failure (to date) to achieve its original objects, will be more in place than a detailed analysis of its history. In brief, the following purposes have been adhered to since its organization:

(1) To encourage export trade directly by a more immediate linking of banking and commerce than is common in England. This the Corporation has attempted to do through numerous subsidiary companies, and through firms in which it holds a part interest. By wedding a banking company to trading affiliates, it was proposed to approximate the efficiency of Continental, and especially of German banks, without departing altogether from the more conservative principles of commercial banking.

(2) To enter trading fields formerly held by the enemy¹ and secure them for the British manufacturer. This is particularly the case in Brazil and other South American markets, and in the Levant and southern Russia. The desire to hold the trade trenches led to the organization of such subsidiary companies as the Levant Company, the Anglo-Brazilian Commercial and Agency Company, and the Portuguese Trade Corporation which, with other subsidiaries, are listed below. Branches were established in Danzig, Belgrade and Batoum.²

(3) To provide overseas banking facilities where British institutions are not already active. In a word, the cornerstone of its policy has been to encourage trading companies specializing in different areas, and to increase British foreign banking services without competing with well-established institutions.

The British Trade Corporation was therefore another step in the process, referred to in presenting the following chapters, of providing "all-British" credit facilities with the exporter's needs in mind. It has not attempted, like its subsidiary, the Trade Indemnity Company, to supply a gap in the type of service rendered; but it aims to meet certain regional needs, as well as to add its own facilities to the acceptance and foreign exchange agencies in London.

Among other joint-stock banks, the following in the "Big Five" group have retained a slight stock interest:

Barclays

Lloyds

National Provincial and Union

However, the Corporation is in no sense comparable with

¹ In the field of banking, the British Overseas Bank is trying to do this in Central and Eastern Europe.

² The Batoum Agency was recently closed.

the British Overseas Bank,¹ whose stock is held for the most part by eight "constituent" banks and whose activities make it virtually a jointly maintained foreign department. The Trade Corporation operates generally and is in no case the representative of any special bank; in fact, it cannot be said to have "constituent" banks.

STATISTICAL RECORD OF DEVELOPMENT

The table below summarizes the principal items in the Corporation's balance-sheets, with percentages showing ratio to total liabilities (or assets) year by year:

BRITISH TRADE CORPORATION

Year* (as on Dec. 31st)	Total assets or liabilities	Capital issued and out- standing	Proportion to total assets				
			1	2	3	4	5
			Advances, loans and bills dis- counted	Invest- ments (in- cluding shares in subsidiary companies)	Current deposit and other accounts (Including rebate of interest on bills dis- counted)	Cash in hand and at banks; money at call and short notice	Accept- ances out- standing
	£	£	%	%	%	%	%
1917..	2,642,000	2,000,000	5	59½	24	21½	..
1918..	3,950,000	2,000,000	27½	40	42½	17½	5½
1919..	5,114,000	2,000,000	23½	42	36½	11	22½
1920..	6,801,000	2,000,000	29	23½	36½	14	32
1921..	4,396,000	2,000,000	37½†	23‡	33	13	19½

*Report for 1922 not published to date (February, 1923).

†After writing off £95,000 in respect of bad debts.

‡After writing off £264,000 in depreciated stock of subsidiary companies.

The large ratio of capital to total assets shows that the Corporation has by no means developed its full capacity even in the boom period. The steady rise in total assets, however, records a growth from 1917 to 1920 which the severe reaction in 1921 and 1922 has proved was premature. The "advances, loans and bills discounted" are of less relative importance than for any of the major groups of British banks represented in London, except those operating in foreign areas.¹ From column (3) it is seen that the Corporation has done proportionally little in the way of deposit banking—less than any of the London groups, and even less than the British Overseas Bank. Its cash reserve has been very low (Column 4) for an overseas bank, although its holdings of Government securities must be considered in judging the liquidity of its position. The acceptance liabilities (Column 5) indicate that the Corporation had emphasized this service before the misfortunes of the last two years. The totals reveal a great setback for the Corporation during 1921, and if current figures were published an even greater decrease in assets might appear, as at the annual meeting held in March, 1922, it was decided to halve the capital in order to allow for further worthless "assets".

Additional pertinent data are given in the next table:

¹See Appendix II.

BRITISH TRADE CORPORATION

<i>Year to December 31</i>	<i>Profit Balances</i>	<i>% of Dividend</i>	<i>High for £10 Shares</i>
	Profits to write down	%	£
1917	preliminary expenses	None	10
1918	5,000	2½	9-7/8
1919	8,000	4	11-9/16
1920	39,000	4	10-1/16
1921	(- 225,000 ¹)	None	7-2/16

The figures in the right column are particularly significant. They show an encouraging appreciation in market value of the stock to 1919, and a drastic fall in 1921, which reflects the passing of the dividend. Because of the breadth of its interests the Corporation suffered greatly from investment depreciation and "frozen" credits, but the more cheerful tone in 1922 and 1923 securities markets has doubtless somewhat strengthened its position.

AFFILIATED COMPANIES

The principal affiliations of the British Trade Corporation are shown in Appendix III. To give flesh to the scaffolding of figures above it is necessary to discuss briefly the position of the several companies in which it is, or has been, heavily interested.

Anglo-Brazilian Commercial and Agency Company.—This institution was founded jointly by the London and Brazilian Bank, and the British Trade Corporation in 1918, each taking half of the capital of £125,000. The object was to capture the Brazilian field from the Germans, by encouraging British exporters with adequate facilities. The

¹ No dividend. £359,000 was written off in bad and doubtful accounts this year. This left a debit at profit and loss of £193,000. The existing capital has been reduced by £1,000,000 and a similar amount of 6% preferred stock created.

demoralization in that field has caused the directors to write off the whole sum invested in this Company, whose affairs are now quiescent.

The Levant Company was founded by the British Trade Corporation early in 1919. It was regarded as a hopeful agency for restoring lost British prestige in the Near East, and many shared the vision of a new company equalling the accomplishments of the old Levant Company of Sixteenth and Seventeenth Century fame. The Trade Corporation purchased the entire issue of deferred shares (£200,000) and succeeded in placing the ordinary shares to twice that amount among the investing public.

The Levant Company acquired a considerable interest in the firm of J. W. Whittall & Company¹ of Constantinople and Salonica, and its branches and connections were established where German and Austrian influence was formerly predominant. These were to be found in each of the Balkan States, South Russia and the "republics" of the Russian Caucasus, Egypt, Sudan, Mesopotamia, and Turkey. Moreover, the Levant Company had acquired as a nucleus for its operations the general merchandizing business of Messrs. Henderson, Lane & Company, and the entire share capital of Hendersons (Manchester) Ltd.² The trading operations of this firm reached into West Africa, South America and the United States. Considerable trading was carried on by the Levant Company in 1919 and 1920, but a complete collapse came in 1921, and its affairs have been so demoralized by political and exchange difficulties that no balance-sheet has been issued since December 31, 1920.³ A

¹ The British Trade Corporation also became interested in the Levantine firm of William Jacobs, Owen and Company.

² Heavy losses have been suffered from cancellation, by American firms, of orders placed for Manchester textiles through Hendersons.

³ *I. e.*, before 1923.

formal meeting of the shareholders was held in November, 1922, in which the proprietors were informed that a new manager was then in the Near East trying to appraise and salvage stocks, and bring order out of the chaos of the Company's balance-sheet estimates. Although no approximation can yet be reached of the extent of the Company's losses, there is no doubt that it is in even a worse way since the Greek débâcle and the new claims of the Turkish Nationalists. The British Trade Corporation has, therefore, also written off its entire investment in the Levant Company.

Practically all the capital of the *National Bank of Turkey* was acquired by the British Trade Corporation in 1918. This was a further venture to strengthen the schemes inaugurated with the Levant Company; but it proved equally unfortunate. Present conditions in the Near East have killed all activity for the time, and when the wreckage is cleared it seems likely that little can remain of the investment.

The *South Russian Banking Agency*, in which, with London County Westminster and Parr's, Lloyds, and the National Provincial and Union Bank, the British Trade Corporation interested itself in 1919, was another move in the same direction. It is inactive, and the investment has been written off save for £8,500 actually in the hands of the Corporation. A further investment was in a small block of stock of the "*Inter-Allied Trade and Banking Corporation*"—a company aiming to promote trade with Belgium and the north of France. This concern is now in liquidation.

Equally unfortunate has proved the Trade Corporation's interest in the *Portuguese Trade Corporation* acquired in 1918. This was at the instance of parties who probably saw in a liaison of the kind opportunities for promoting

British trade in the Portuguese colonies. The capital was changed from sterling to the Portuguese unit, over the protest of the British Trade Corporation, with the result that it was almost deleted with the disastrous fall in the latter. This interest has been liquidated.

Of all investments made by the British Trade Corporation in subsidiary companies, the only ones which seem at present writing not to have been unfortunate are those in the *Merchant Trading Company* and the *Trade Indemnity Company*. The former was registered in October, 1918, and has done a brisk business in chartering and other lines; while the *Trade Indemnity Company*, which was founded, and is controlled by, the British Trade Corporation, is doing pioneer work in credits insurance. So much importance attaches to its efforts that the next chapter is devoted to a discussion of its policies.

In brief, the Corporation has been singularly unfortunate. Its knuckles have been rapped wherever its interests extended in overseas areas, for the reason that the dramatic ups and downs of world business, and the running sores of European politics could not be anticipated at the time when its far-reaching program was undertaken to meet an existing need. Its reserves could not possibly have been developed in the short time before heavy losses followed in the wake of deflation and post-Armistice wars. Notwithstanding the services it rendered British exports during the boom years, its subsidiaries are now of little practical importance (except the *Trade Indemnity Company* and the *Merchant Trading Company*) and it is difficult to predict whether or when any of them will revive a substantial business. Moreover, in view of the high ratio of its bad debts, it seems that the Corporation's chief influence in encouraging exports was exerted at a time when, if men could but have foreseen subsequent developments, a policy of conservatism was called for.

Perhaps certain American firms which have suffered from over-commitments in years of post-Armistice prosperity will derive a measure of comfort from this and similar accounts of the miscalculations of others. They ought the more to learn from the energetic way in which the British Trade Corporation is clearing its decks and preparing undauntedly for the future. A new issue of £1,000,000 preferred stock was agreed upon at the time when decision was taken to halve the capital; and it speaks well for the directors that the stockholders have had sufficient confidence in their management to subscribe the entire amount at par. Everyone must admire the courageous way in which the Corporation has written down its bad debts and doubtful securities. It is only fair to say that the City banker has confidence in any document to which it adds its name, and the financial standing of its backers is unquestioned. The new funds will probably be wisely used—whether for strengthening the Corporation's present position or for extending one or more of its lines of activity in the near future. If the latter, it is difficult to see where it will begin, as far as the foreign field is concerned, until improvement in world conditions enables some of its subsidiaries to resume operations. There is, of course, opportunity for increasing its issuing business, of which the Corporation has already done a moderate amount.

CHAPTER V

THE TRADE INDEMNITY COMPANY

THE Trade Indemnity Company is a subsidiary of the British Trade Corporation. As has been seen from the preceding chapter, it is practically the only affiliated business which is really active at the present time.

The Company has assumed leadership among English private companies and underwriters in affording forms of credit insurance particularly required during the troubled times through which export trade has been passing. Its management has been at once conservative and flexible, and the cautious grading of risks with a view of the particular circumstances in each case has enabled it to maintain financial stability when international trade was hard hit. The basis of the Company's activities has been the long experience of its underwriter, who has been able to apply successfully in post-war credit insurance the experience he gained along these lines before the war. He is one of the best qualified men in the United Kingdom in what is yet a new form of insurance, and has for some time served as adviser in the Export Credits Department of the Board of Trade. Through its underwriter, the Trade Indemnity Company, therefore, enjoys a personal link with the Government scheme—which has been outlined in Chapter III.

INSURANCE VERSUS GUARANTEE

As there described an important part of the work of the Export Credits Department is the guarantee of a stated

portion of the credit, reimbursement being effected as soon as the importer fails to meet the draft. This guarantee renders a bill drawn upon a foreign importer entirely acceptable for discount at the bank, which makes its demand upon the Export Credits Department in the event of default by the drawee. In several forms of insurance contract with the exporter, the Export Credits Department reserves the right of ultimate recourse to the drawer when the final loss has been determined. The recourse, however, is only for a stated percentage of the claim; and the merchant can continue his business with almost the same facility as though the bank had purchased his bill outright and with no right of recourse. It gives the exporter something of the same assurance as a guarantee of its client's acceptance by a Continental "del credere" bank.

Insurance of commercial credits has generally taken the form, on the other hand, of reimbursing a net loss—or a part thereof—when all matters pertaining to the transaction have been ultimately adjusted. The delays in final liquidation have rendered the insurance principle less useful to the average exporter than the guarantee of credit advances, realization on which is vital to the continuance of his active business. The following quotation is from a prominent credit underwriter, and reveals the gap between the guarantee and the typical credits insurance. It is taken from the first edition of *The Insurance News*, a London publication dating from November, 1922:

After 25 years of close study of the subject, I am convinced that Credit Insurance should be examined, not only by the insurance world, but by our bankers and merchants.

Our Exporters have recently experienced the benefits of the Government scheme, and realize that by the surrender of a small proportion of their profits they have been able to finance transactions which, without the scheme, would have been

practically impossible. Apart from this, they have been relieved of a material portion of the risk of making bad debts. To my mind this class of insurance should never have been left to the Government to operate. It is a commercial problem, and although many difficulties may exist, it would be an indignity to our commercial intelligence to insinuate that a solution cannot be found.

I recognize that one serious gap does exist, namely, the division between the limit of an insurance scheme and the limit of assistance recognized by bankers.

To illustrate the difficulty it is necessary to remember that "insurance" only indemnifies the policy-holder against the "net" or ultimate loss, whereas the banker requires his client to liquidate his obligations on the day on which the default occurs. This is frequently only an insignificant period, but it may be a year or even more before the outcome can be definitely ascertained. Up to the present underwriters interested in credit insurance have never felt that they could contemplate issuing a policy undertaking to finance what might be termed the "temporary" loss. This they contend should be the bankers' obligation, but the banker on his part contends that he requires a policy to dovetail into his client's transactions. This gap must be bridged.

This "gap" between the immediate liquidation required by the bank of its client and the reimbursement of ultimate loss contemplated in the typical credits insurance contract has, therefore, been bridged in part by the guarantees offered through the government's Export Credits machinery. The result has been to give a basis of banking negotiability to many bills arising out of exports to Central and Eastern Europe, which would not otherwise have been able to tap reservoirs of bank credit.

With the contemplated abandonment of the Government scheme in the near future, the serious question has been discussed of supplying an adequate substitute. While de-

sirous of accommodating exporters by discounting their bills drawn on troubled regions, the joint-stock banks in London hesitate to take the risks of waiving recourse, or of guaranteeing foreign contract payments. The underwriters are equally hesitant. During many months banking and insurance groups have attempted to evolve a cooperative system whereby both extend their lines of activity to supply this hiatus in the credit mechanism.

The form contemplated is a new corporation whose stock should be held by banks, insurance companies and merchants. This company would develop a line of facilities quasi-credit, quasi-underwriting, and build roads in the borderland between commercial banking and credits insurance. Leaving this special field to a new company would relieve the banks of the embarrassing need of guaranteeing the very bills they discount, and permit the underwriters to keep on the track of insurance in the narrower sense. At the same time a joint interest of this kind would presumably open up to the underwriter the rich experience of the bank in its innumerable contacts with overseas transactions, and permit the strength of the insurance groups to be thus indirectly thrown into the effort toward a wider negotiability for the foreign trade bill. It is unfortunate that the innate conservatism of the London banker is making difficult negotiations along this line. In fact, there is reasonable prospect for the continuation of Government aid in one guise or another.

THE SIGNIFICANCE OF THE TRADE INDEMNITY COMPANY

Although this Company was founded by the British Trade Corporation (March, 1918), its stock being now for the most part held by the latter, it seems almost more important in a practical way at present than the parent company, and this for the following reasons:

(1) The Trade Indemnity is the only important private company in England which specializes in credits insurance. It sets the lead in this branch of underwriting. Because of its great prestige, a line of insurance which it has investigated and decided to grant is generally shared by others, and often participated in by Lloyd's Underwriters to a total exceeding the commitment which the Trade Indemnity Company would be willing to undertake.

(2) The Company is run on a strictly commercial basis. The management are averse to a mingling of "charity and business" and convinced that a well-organized commercial credits insurance system will amply support itself.

(3) In order to meet the need outlined above, the Trade Indemnity Company has offered a form of policy departing from the strict insurance principle, and undertaking to advance at once the assured portion of any dishonored bill.

Because of the growing importance of commercial credits insurance and the changing standards which post-war experience is introducing it is worth while to quote here in full the synopsis offered by the Company of the several types of policy it provides:

TRADE INDEMNITY COMPANY, LIMITED

SPECIFIC ACCOUNT INSURANCE

The Company is prepared to grant policies insuring approved accounts up to three-fourths of the amount of the debt on the following bases:

Basis A

To pay to the Assured the agreed proportion of the net loss after the Customer has become insolvent and all dividends recovered or ascertained.

Forms of Policy.

1. **Bills of Exchange.** A declaring policy to cover Bills of Exchange drawn in respect of goods sold and delivered. All duly accepted Bills are to be declared to the Company and written off the turnover for which the policy is taken out.
2. **Open Account.** A declaring policy to cover open-account transactions. The basis is similar to form No. 1, except that instead of Bills the invoices have to be declared. The policy would be exhausted when the invoices declared aggregate the gross amount for which the policy is issued.
3. **Time.** A policy insuring the solvency of one or more customers during a period not exceeding 12 months in respect of credit granted for goods sold and delivered. The amount at risk is based on the largest amount of credit which the Applicant would have running at any one time during the 12 months, irrespective of the amount of the turnover. Should a customer insured become insolvent during the period for which the policy is issued, the Company would be liable to the extent of the proportion insured of the amount of credit owing at the date of insolvency, provided it did not exceed the limit placed against the name of the customer. Any renewal of the policy takes over the debts current at the time of renewal. Where an applicant is doing a continuous business with a customer this form of policy will be found to be most suitable.

Terms.

All accounts submitted for insurance must be against goods to be sold and delivered in the ordinary and general way of trade.

Premiums are based upon the merits of each proposal and are quoted as a percentage on the portion of the risk which the Company is willing to accept.

X62.3.N2

F3.

Basis B

To pay to the Assured after satisfactory proof of insolvency such sum as shall equal $1\frac{3}{4}$ in the £ on the proportion of the debt insured under the policy in full satisfaction of the liability of the Company. All forthcoming dividends to be the property of the Assured.

Forms of Policy.—As per Basis A (Nos. 1, 2 and 3).

Basis C

To pay to the Assured in the event of dishonor of any duly accepted Bill, the agreed proportion of such Bill as is covered by the Policy within seven days of satisfactory proof of such dishonor and assignment of the debt to the Company. Any amount collected by the Company from the estate of the defaulter in excess of the amount paid by the Company (plus interest and charges) will be returned to the Assured.

Form of Policy.—(Bills of Exchange). A declaring policy to cover Bills of Exchange as per No. 1 of Basis A.

WHOLE ACCOUNT INSURANCE

The Company grants policies insuring against a proportion of losses in one year in respect of a client's whole turnover in excess of an agreed percentage of loss on turnover to be borne by the Assured.

GENERAL POLICY

The Company also grants policies insuring up to two-thirds of a client's whole turnover against ultimate loss.

RESALE LOSS

Policies are also granted to cover a proportion of such losses as may arise should a forced resale of goods become necessary in consequence of buyers becoming insolvent and thereby unable to take up shipping documents.

* * * * *

A perusal of these bases shows how thoroughly the Trade Indemnity Company has canvassed the needs of the present-

day exporter, and attempted to meet his peculiar problems in the venturesome spirit of the pioneer. It is Basis C. to which reference is had in (3) above—to wit, “To pay to the Assured in the event of dishonor of any duly accepted Bill, the agreed proportion of such Bill as is covered by the Policy within *seven days* of satisfactory proof of such dishonor and assignment of the debt to the Company”, with the further agreement that “Any amount collected by the Company from the estate of the defaulter in excess of the amount paid by the Company (plus interest and charges) will be returned to the Assured.”

Furthermore, Basis B agrees to settle with the assured “after satisfactory proof of insolvency”, the policy forms being those used for A, with three addenda, the first of which reads:

Notwithstanding anything to the contrary contained herein, it is hereby understood and agreed that:

1. In the event of the insolvency of a customer occurring within the period specified, the Company shall within seven days from proof of insolvency and evidence satisfactory to the Company that the provisos and conditions of this policy have in all respects been complied with pay to the Assured such sum as shall equal $13\frac{1}{4}$ (thirteen shillings and four pence) in the £ on the proportion of the debt to which this policy applies in full satisfaction of the Company's liability hereunder.

Needless to say, the bulk of the Trade Indemnity's business is transacted under the first basis—the need for Basis C being less urgent than a couple of years ago, and the experience under it too meager to remove it from the category of the experimental. It is to be expected that a larger volume of business will be placed under B and C as credits insurance works out a more satisfactory body of rate-making principles—for, by way of contrast with Basis A, the as-

sured exporter is entitled to quick relief which renders his bills more negotiable among banks, and frees his transactions from the inconvenience caused by lack of working funds tied up in "frozen credits". So important was this considered before trade depression settled down on Europe that the British Trade Corporation informally agreed to back its subsidiary in the case of several policies issued under Basis C in view of the natural tendency to keep to the more conservative field of ultimate loss-sharing. In addition to credits, the Company also sells Contract and Fidelity insurance. The novelty and variety of these forms of insurance, coupled with the lack of Government subvention, have, needless to say, necessitated a management of broad experience, unshackled by rigid standards.

A peculiarity of credits insurance is the inability to classify risks, and standardize rates in accordance with actuarial data. If a much greater mass of these data were available than experience hitherto has provided, the fact remains that from the standpoint of scientific calculation the foreign credit risk is not, strictly speaking, insurable. It is a function of many variables—exchange, price fluctuations, general economic and political conditions, the reliability of the traders—and in no two cases are these several factors combined in exactly the same way. The ideal underwriter must be statistician, credit man, and economist, and fix the premium and extent of risk in each case by a nice weighing of many considerations. As is stated above, the solid financial position of the Trade Indemnity Company is largely due to the skill and long experience of its underwriter.

Apart from the activities of the underwriter's office, the Trade Indemnity Company is largely a name. Its service consists in the main in a study of each problem from its several angles, and the fixing of what it considers a safe rate and a conservative participation. On the basis of these

findings a far larger volume of insurance is frequently written through Lloyd's Underwriters, who generally accept without question the premium rates fixed by the Company, and occasionally swell the amount of the policy to the very limits of legitimate protection.

A very large part of the business for which the Trade Indemnity Company is really responsible is thus finally effected through the Lloyd's groups. Moreover, it is the practice of the Company to re-insure about seventy per cent of the risks it assumes, proportionally dividing the premiums among the cooperating Lloyd's Underwriters, of whom from eighty to one hundred are interested in following the Company's lead in credits insurance. As the premium income in the Company's annual statements is the net figure, it is useless as an indicator of the Company's total business.

PRESENT STATUS OF THE TRADE INDEMNITY COMPANY

In the latest Report and Balance Sheet of the Trade Indemnity Company the item "Balance of Underwriting Account 1921" appears at £12,000. Unfortunately, the Company does not separately state its total premium income, the above figure representing the net after payment of all claims accruing during the year. The re-insurance is also considerable. The management has indicated to the writer that the entire premium income was in the neighborhood of £100,000, which, allowing for an average rate of one per cent, represents from ten to twelve millions of principal. Further support accorded by Lloyd's Underwriters on the basis of the above insurance contracts would probably double the face of the policies. Business has thus been supported during the year in question to the extent of at least twenty to twenty-five million pounds. While inconsiderable as compared with total export figures, this represents a sub-

stantial aid to exporters, which will naturally increase with the revival of trade.

This calculation is arbitrary in taking one per cent as the average premium rate. As a matter of practice the charges vary from one-quarter of one per cent to ten per cent. The former would represent business of unquestioned integrity, and the latter an unusual risk. Roughly speaking, one per cent would cover a typical transaction.

The general position of the last Balance Sheet shows the Company to be in a satisfactory condition, although no dividends have been paid as yet. Its experience in credits insurance points to two essentials in the successful prosecution of underwriting in this field:

(1) As rates must be determined separately in each case, simplicity and flexibility in procedure are required. The underwriter must be free to view each application from a fresh angle, taking into account many other factors than those usually paramount in the Dun or Bradstreet rating. The complexity of German and American methods stands in contrast with the simpler procedure in London.

(2) As far as foreign transactions are concerned, a paying insurance business can only be developed by reliable overseas intelligence. Cooperating banks with well-established foreign-connections are a valuable adjunct, but even with such collaboration the manager should be a man with practical foreign credits experience and the viewpoint of a commercial banker as well as an insurance actuary.

The Trade Indemnity Company reports a satisfactory arrangement with three important German banks. When it is asked to underwrite a credit incurred for German imports, it communicates with the foreign group, proposing a sharing of risk and premium. After thorough investigation on the ground the German bank group reports the probable character of the risk. The rate is determined accordingly,

and its joint responsibility places the German group under the necessity of strict surveillance. The agreement is mutually beneficial, as German banks have had a large experience in one or another form of credits insurance before the war,¹ and they are in a far better position to appraise and check the German importer than the English exporter or his banker. Moreover, the process is simplified by a running arrangement whereby the German banker's share in the total premium is credited to him in sterling and paid periodically. Although German banks are the only ones so cooperating at the present time, the Trade Indemnity Company is attempting a similar *modus operandi* with certain Austrian banks. When political conditions are less unsettled this may be a fruitful course of development.

¹ The "del credere" system is familiar to all students of the subject. These credit guarantees, and other forms of underwriting were a potent factor in Germany's pre-war efficiency in cultivating foreign markets.

CHAPTER VI

THE BRITISH OVERSEAS BANK

AMONG the institutions recently created for extending foreign credit facilities the British Overseas Bank has an important place. In its organization several banks have committed themselves to the cooperative principle in developing their overseas services, and from the beginning (June, 1919) it has had the backing of constituent groups. In several respects it may be compared with the Edge Law bank, which, like it, is designed to specialize in certain foreign credit problems, and offer its superior facilities to share-holding banks.

ORGANIZATION AND CONTROL

The following banks are immediately interested in the British Overseas Bank. It serves virtually as their foreign arm, and by tacit agreement they provide it with a substantial nucleus of work:

1. Anglo-South American Bank.
2. Dominion Bank.
3. Glyn, Mills, Currie & Co.
4. Charles Hoare & Co.
5. Imperial Ottoman Bank.
6. Northern Banking Co.
7. Union Bank of Scotland.
8. Williams Deacons Bank.

These eight banks are independent institutions. The third and fourth are old-established private companies. The

second is a Canadian bank, with head office in Toronto. The sixth is an Irish Company domiciled in Belfast, and the head office of the Union Bank of Scotland is in Glasgow. The last is a Manchester bank domiciled in London; and the first has its head office in London but operates primarily in Latin America. The headquarters of the Imperial Ottoman Bank are in Constantinople and the Levant is its sphere of interest. The total assets of all the constituents are approximately £260,000,000—a figure less than the deposit and current accounts for any one of the “Big Five”.

The miscellaneous character of the supporting banks, and their independence of the “Big Five”, indicate two reasons for their forming the British Overseas Bank. The first is the desire to develop by joint action a more efficient foreign service than each could build up separately; the other is to enter into reciprocal relations which will permit a bank operating primarily in a certain territory to offer its services to another similarly situated elsewhere, and *vice versa*. Although the cooperating banks are under no obligation to refrain from establishing their own foreign departments, agencies and affiliations, self-interest has so far impelled them to give united support to the operations of the Bank they control. Although separate foreign departments are maintained, there is constant interchange between them and the Overseas Bank, which very naturally serves to the best of its ability the interests of its shareholders.

To facilitate their control, and at the same time draw a portion of the working capital from the investing public, a device has been adopted of dividing the stock into “A” and “B” ordinary shares. The “B” shares are held entirely by the cooperating banks, who thereby control the institution. The “A” shares enjoy priority as for capital in event of liquidation, rank for cumulative dividends of 6%

per annum, and are held by the public.¹ The shareholding banks have been scrupulous in cultivating popular confidence in the "A" shares. An original provision that any bank desiring to retire from participation might have its holdings of "B" shares converted into "A" stock has been nullified to protect the "A" shareholders' margin; and so far no dividend whatever, either interim or final, has been paid on "B" shares, although the preferential dividend on "A" has been regularly paid.

The Articles of Association provide that any shareholder having not less than 10,000 "B" shares (£50,000) will be entitled to nominate one member of the Governing Council, and that the members of this Council will have one vote for each 10,000 shares held, or for each £50,000 of deposits kept by the bank by which they were appointed. Moreover, "the Company in general meeting will have the right to appoint a number of members to the Governing Council, not exceeding the total number nominated as above mentioned". The Board of Directors is responsible to the Governing Council, although it enjoys a comparatively free hand in managing the commercial business of the Company.

FOREIGN AGENCIES OF THE BRITISH OVERSEAS BANK

The policy of the Bank has been to cooperate with local institutions rather than establish branches of its own. It has been encouraged in this by the trying conditions obtaining

¹ The total authorized capital is £5,000,000 in £5 shares, of which £1,500,000 is in "A" shares for public subscription, £1,500,000 in "B" shares for subscription by constituent banks, and the remainder in either. £1,000,000 in each kind of stock has been subscribed at par, and fully paid; and the outstanding capital is therefore £2,000,000.

After paying non-cumulative dividends of 6% on the "B" ordinary shares, surplus profits available for distribution each year are to be applied in paying further dividends on the "A" and "B" shares in such a manner that the additional dividend on "B" shares shall be at a rate double that of any additional dividend on "A" shares.

since its organization, and the natural reticence of its directors in making heavy commitments until stable economic life is restored. The Bank has developed wide working contacts with a minimum of risk in the following ways:

(1) By entering into working arrangements with powerful foreign banks having many branches and affiliated companies. An agreement with the Banque de Bruxelles provides that the latter shall represent the British Overseas Bank in all its Belgian transactions, and reciprocally — so that its list of agents in that country consists for the most part of affiliates of this Belgian group. In other cases arrangements are not so exclusive, and provide reciprocal facilities in the usual way. The Bank has thus gained a formidable list of agencies and correspondents in all parts of the world. It does not invest in the stock of these institutions, nor are they in any sense affiliated companies in the usual meaning of the phrase.

(2) The controlling banks naturally offer their facilities to the British Overseas Bank in the areas of their operation. The Imperial Ottoman Bank has wide connections in the Levant. The Anglo-South American Bank controls the British Bank of South America and the Commercial Bank of Spanish America.¹ Its numerous branches and the branches of its affiliates are at the service of the Bank, which is therefore in position to serve its clients well in these quarters. The Canadian position is also strong.

(3) In two instances the Bank has sought a peculiar sphere for its activities by acquiring a stock interest in Continental banks. The Anglo-Polish bank was organized by it, in conjunction with the old Polish banking firm of A. Peretz & Co. of Warsaw, in February, 1920. A small block of stock was purchased in the Dorpater Bank of Esthonia in 1921.

¹ For further details of this kind, *vide* Appendix III.

The two annual reports and balance-sheets of the Anglo-Polish Bank to date show phenomenal increases as from 1921 to 1922, although the accounts, being in Polish marks, are most misleading. The English representatives of the British Overseas Bank in the control of its Polish subsidiary have been overburdened with the expanding business of that Company. A branch was opened in industrial Lodz in March, 1922, and the capital has recently been doubled to permit of a heavy participation by the Bank of the United Lands of Poland, whose Chairman has become President of the Anglo-Polish Bank.

The shareholding interest in the Dorpater Bank is small, but it has been taken at a time when this old and favorably known Esthonian Bank is about to extend its activities. A branch office of the Dorpater Bank was opened in Reval on February 1st, 1922. Although this institution is not, like the Anglo-Polish Bank, a subsidiary of the British Overseas Bank, the latter can now safely claim better facilities for its clients in Poland and the Baltic States than any other British bank. In the annual meeting of 1921 the Chairman of the Overseas Bank states, with reference to the new Baltic connection that "naturally the field is at present limited, but an active little business has already been established" and "the connection is almost more interesting from the wider vista it opens up, and from the point of view of future development still further afield".

These two affiliations square with the Bank's consistent policy of cultivating Central and Eastern European territory, and especially that served by the old Anglo-Austrian Bank.¹ In those regions it has been seeking its special sphere, but at a time when political and economic conditions dictated extreme caution. The house of A. Peretz (Warsaw) which

¹ For the new Anglo-Austrian Bank and its subsidiary the Anglo-Czecho-Slovakian Bank see Chapter II.

has been absorbed in the Anglo-Polish Bank and constituted its nucleus, was in as sound a position as possible in view of Poland's disturbed conditions, and considering the wars and economic problems of its domicile the new Bank seems to have done remarkably well. Doubtless the British Overseas Bank has considered Warsaw a good position for gathering economic information and has had in mind the strategic possibilities of Eastern Europe bases with a reviving Russian trade.

ACTIVITIES

(1) Although not directly contributing to its earnings, the intelligence work of the Bank is rated as one of its chief services. In this field it replaces the facilities formerly offered by the German banks, and by a few institutions of other countries, like the Credit Lyonnais, upon which the British banks relied in pre-war days. The information collected is of two distinct types—credit intelligence on individual firms all over the world, and data on financial and economic conditions not unlike those gathered regularly by regional divisions of the American Bureau of Foreign and Domestic Commerce. The chief of the Intelligence Division is an economist of wide contacts on the Continent, and the assistant chief a practical credit man with a dozen years' experience in London's financial circles.

The Bank does not put out periodical surveys of business conditions, even for those countries upon which it is best informed. It has built up so formidable an array of current material, however, that many other than the participating banks address queries to its Intelligence Division. A recent résumé of the work of that Division for the period from November 29, 1921, to October 28, 1922, suggests the potentialities of this part of the Bank's services. During the time in question over 200 statements on exchange prob-

lems and economic conditions were prepared for thirty enquiring banks. Among those accommodated were French, German, American and Scandinavian banks, although by far the greater number of reports were for the affiliated companies. In the same period about 2,500 statements were prepared on the credit standing of firms, and the list of applying banks embraces about forty British companies, forty-five Continental and six New York banks.

(2) The Articles of Association permit the Bank to conduct an issue and underwriting business and to enter the field of industrial banking. Pursuant to its general policy of caution, however, little has been tackled to date in this field. Its only important undertakings in issuing¹ have been the successful flotation of £3,000,000 in secured notes for the Explosives Trades Ltd. (Nobel interests) which was accomplished in collaboration with the house of Helbert, Wagg & Co. Ltd.; and the refunding of the Roumanian foreign loan, which is one of the largest operations of its kind.

(3) The Bank, of course, offers the usual range of facilities in foreign-trade financing. It accepts and endorses; handles foreign collections; receives deposits and arranges credits. As is seen in a following section, the deposit business of the Bank is relatively unimportant and, although it is entitled to enter all phases of commercial banking, it avoids competition, as far as possible, with its supporting banks. Its "current and deposit" accounts are therefore for the most part the balances of foreign clients or of others who are accumulating funds to meet drafts. With its superior intelligence and correspondent facilities, collections are bound to be an important element of business when trade is again active. Loans and discounts are rela-

¹ *I. e.* to the end of 1922.

tively unimportant to date, but acceptances and endorsements show a substantial figure despite the intention of the Bank to avoid heavy commitments of this kind until its position is more firmly secured.

(4) Foreign exchange is the most active branch of the Bank's present business and here it is an important factor in the general market, buying and selling for most of the banks established in London.

Special facilities have been developed permitting traders to avoid speculation in exchange by "hedging" contracts at reasonable cost. The Bank's intimate knowledge of conditions in countries of depreciating currency enables it to enter "spot" and "future" contracts in exchange, which it covers by arrangement with its affiliates or agencies. Further refinements in its exchange facilities have permitted the Bank to give optional quotations over the period of the foreign transactions, thus eliminating the trader's risk without actual purchase or sale. The inscrutable fluctuations of Continental currencies and the long credit which unsettled conditions demand have made this a popular branch of the Bank's business, from which, at least during the first year, it derived most of its profit.

FINANCIAL SHOWING OF THE BRITISH OVERSEAS BANK
TO DATE

The first three balance-sheets are presented here in parallel columns, with percentages opposite each item giving the proportion which it bears to the total.

MOVEMENTS IN THE BALANCE SHEETS OF THE BRITISH OVERSEAS BANK
FOR THE FIRST, SECOND AND THIRD YEARS OF ITS OPERATIONS

Liabilities	Oct. 31, 1922		Oct. 31, 1921		Oct. 31, 1920	
	£	% of total	£	% of total	£	% of total
Capital	2,000,000	43.8	2,000,000	45.9	2,000,000	38.3
Special reserve	20,000	.5	10,000	.2	.....	.....
Current, deposit, and other accounts.	1,511,511	33.	1,794,000	41.1	1,402,000	27.0
Acceptances	932,420	20.5	449,000	10.3	1,621,000	31.0
Profit balance	102,814	2.2	103,000	2.5	200,000	3.7
Total liabilities	4,566,745	100.0	4,361,000	100.0	5,223,000	100.0
Assets						
Cash in hand and at bankers	314,185	6.9	569,000	13.0	606,000	13.4
Money at call	1,019,431	22.3	1,395,000	32.0	2,025,000	39.0
Balances abroad	574,968	12.6	1,099,000	25.1	318,000	6.1
Treasury bills	298,495	6.5	100,000	2.3	.....	.....
Investments	80,028	1.7	65,000	1.5	132,000	2.5
Bills discounted	106,405	2.3	50,000	1.4	117,000	2.2
Advances	905,075	19.8	380,000	8.9	212,000	4.0
Liabilities of customers for acceptances, etc.	932,421	20.4	449,000	10.3	1,621,000	31.0
Preliminary expenses .....	.....	.....	.....	.....	30,000	.7
Premises	325,740	7.5	239,000	5.5	62,000	1.0
Total assets	4,566,745	100.0	4,361,000	100.0	5,223,000	100.0

The following approximate percentages are placed in parallel columns to permit of comparison with other bank groups:

Item	% of Total Liabilities (or assets) in Balance Sheets of 1922		
	British Overseas Bank	Participating Banks	"Big Five"
1. Cash in hand and at bankers; money at call and short notice	42	27	19
2. Discounts and Advances	22	1	53
3. Current deposit and other accounts	33	78	91

¹ Lack of uniformity in balance sheets.

From the first set of figures, a considerable shrinkage appears in the general accounts for 1921 as against 1920. This is due, of course, to the depression, and to the laudable caution of the Bank in making heavy new commitments. There is a growth in the balance-sheet totals for 1922; an excess of deposits still appears over 1920, although the general total of that year has not yet been attained. Deposits, however, are, in proportion, far below those of the participating banks, or of the "Big Five". This shows the determination of the Bank to make its deposit business ancillary to the foreign-trade services which it was organized to perform. Such deposits as there are chiefly represent balances kept by foreign clients who are accumulating funds in anticipation of credits, and the greater amount the second and third years is due rather to an increase in the number of accounts than in the average deposits.

The decline in acceptances in 1921 is the balance-sheet register of trade depression, and the increase in 1922 over 1921 is a hopeful portent.¹ Because of the shrinkage in total assets, the volume (for the last two years) is greater than the percentage decline, although the latter is still as much as one-third. Nevertheless, it is interesting to note that, comparatively speaking, the acceptance and endorsement business of the Bank is of far greater importance than similar items for either the "Big Five" or the participating banks; while for 1920, when acceptance services were being freely rendered, there is no comparison at all.

The noteworthy fact in the assets side is the strong liquid position of the Bank. Grouping together the three items "Cash in hand and at bankers", "Money at call", and "Balances abroad", the total represents 42% of the Bank's

¹ As a general rule, acceptances of British banks were increasing in the last months of 1922, although in volume smaller than for preceding years.

assets in 1922 and 70% in 1921. This contrasts with 27% for the same categories in the balance-sheets of participating banks, and 19% for the "Big Five". The reasons for maintaining this liquid position, which is proportionally stronger in 1921 than 1920, are that:

(1) There is lack of demand for accommodation on the part of those whose credit is above question, and the hindrances to trade are many in the countries of Eastern Europe;

(2) The deposits, by their very nature, are subject to unforeseen withdrawals; and

(3) Dealings in foreign exchange, which is the Bank's principal present business, have been so active and the turnover so large that cash reserves and funds available on call are required to meet the large settlements, which cannot be timed as systematically as a bank's commercial paper maturities.

Investments, bills discounted, and advances are comparatively unimportant items in 1921, but last year advances increased appreciably and are now 20% of all the assets. Nevertheless, the Bank has yet to develop its commercial credit business. It will not, of course, actively compete with its supporting banks either in the London market or in the special foreign areas which each serves. So far its greatest opportunity has been in Central and Eastern Europe. Despite the encouraging increase in advances, both as to percentage and volume, over 1920, this part of its business is of far less comparative importance than for the "Big Five".

The present position of the Bank is sound, owing to the strength of the supporting banks and the cooperation which they are rendering. However, the showings to date have reflected the general trade stagnation, and, as yet, no dividends have been paid but the annual 6% allotments on the

“A” stock. The reserves are small, considering the Bank's investments in foreign banks, but it is the announced intention of the Bank to accumulate a reserve corresponding in amount to the cost of the foreign bank shares held by it.¹

¹ An important recent announcement is to the effect that the British Overseas Bank will probably soon take over the London and Liverpool Bank of Commerce. This is a smaller bank (assets £2,328,000) established in 1879, whose acceptance business, while modest, will provide the Overseas Bank with a new nucleus of substantial foreign clients. The London and Liverpool Bank became deeply involved in 1914 by reason of its Continental acceptances, endorsements, etc., but the liquidation of its debts to the Bank of England for advances under the Government scheme of 1914 leaves it in a solvent state. It has no branches.

CHAPTER VII

FOREIGN POLICIES OF THE "BIG FIVE"

THE consolidation movement among British banks in recent years has left no town of any size without the direct services of one or more among the five dominant joint-stock banks. The principal purpose of these amalgamations has been to meet the larger credit needs of British industries. In broadening their clientele, the "Big Five" have found it both natural and necessary to offer a wide scope of foreign facilities in the interest of their patrons, and the most significant developments in this field are to be seen in the quietly expanding operations of the great banks.

The attention hitherto devoted in popular discussion to public guarantees and advances, and to numerous new and struggling institutions, obscures the constant adaptation of tried British agencies to post-war conditions. Each well-established bank is feeling its way under the pressure of immediate service for its clients; and the steps taken by the "Big Five" are of interest to all banks as a body of sound principles is being hammered out from current experience. In what follows a brief description will be given of the different policies pursued, the present range of services offered, and the boundary lines between the joint-stock banks and the private bankers who continue so strong a factor in foreign trade financing.

I. FOREIGN BRANCHES AND AFFILIATED BANKS. FOREIGN AGENCY AND CORRESPONDENT BANKS

A glance at Section III will show that the London Joint City and Midland Bank is the only one in the "Big Five" group which has no foreign affiliated or subsidiary banks, and no appreciable stock interest in any bank, dominion or foreign, operating overseas. In keeping clear of "foreign entanglements", the Bank is following a well-considered policy in contrast with its chief competitors. This is no more a line of cleavage between the Midland Bank and the others among the "Big Five" than it is a difference of opinion among prominent bankers. The late Sir Edward Holden, Chairman of the London Joint City and Midland, and his successor, have been the chief exponents of the policy of their Bank, and although the consensus of authority seems against them, there are directors of other banks who hold to their view, or who would at least oppose a further extension of their banks' direct foreign interests.

The Midland Bank has kept an independent path for the following reasons:

(a) The organization of subsidiary foreign banks, or the direct establishment of foreign branches is held to involve the usual responsibilities of local deposit and commercial banking. The taking of deposits in foreign countries commits a bank to the legitimate accommodation of its clients. Experience has shown that these clients are readily attracted by the more speedy and efficient service of British banks in the ordinary transactions touching the depositor. The foreign business is for this reason profitable in times of comparative stability; but fraught with danger when critical conditions increase the demand for credit on the part of firms whose reliability cannot possibly be as accurately ascertained by the British, as by the native, banker.

The conservatism of the Midland Bank in protecting domestic depositors stands out in the following table, which shows the proportion of deposit liabilities represented by the principal kinds of realizable assets. The percentages are for June 30, 1922, and are typical of the showing in the subsequent monthly statements issued by the Bankers' Clearing House:

Bank	1	2	3	4	5	6	7
	Deposit and current accounts	Cash in hand and at bank ¹ Prop'n 2 to 1	Money at call and short notice Prop'n 3 to 1	Investments ² Prop'n 4 to 1	Bills discounted Prop'n 5 to 1	Advances to customers and other accounts Prop'n 6 to 1	Cash in hand and at bank Prop'n total liabilities ¹
	£	%	%	%	%	% ³	%
Barclays	321,167,000	16.5	6.5	26.2	14.	40.2	15.1
Lloyds	341,934,000	14.	4.9	25.4	22.8	30.2	12.8
London Joint City and Midland....	368,231,000	17.6	4.3	18.4	15.2	48.0	16.
Nation Provincial and Union	269,397,000	13.7	7.4	21.	17.1	45.3	12.7
Westminster Bank.	297,513,000	13.3	9.	19.	27.6	34.7	12.2

The sum of the percentages in columns 2 to 6 is more than 100 because it includes assets derived from the investment of capital and reserves. The last column is considerably below the first because of the further item of acceptances among the liabilities. The assets are arranged in rough order from 2, the most liquid and least profitable, to 6, the least liquid and most profitable. The percentages,

¹ Including balances with and checks in course of collection on other banks in Great Britain and Ireland.

² Exclusive of investment in affiliated banks.

except for the last column, are reckoned on total deposits, which constitute the banks' callable obligations.

A quick calculation will show that if the Midland Bank kept, in cash and balances, only the average percentage of deposit liabilities held by the others of the group ($17\frac{1}{2}\%$ as against $14\frac{1}{2}\%$), some eleven million pounds would be released for productive use.¹ The percentages for others than the Midland Bank are not particularly affected by their foreign deposit and commercial credit business because this is carried on by subsidiary banks whose accounts are separate but not published. However, the table illustrates the cautious policy of the Midland Bank, which is one of the chief reasons why it has not invaded the foreign field. While no member of the "Big Five" is on the way toward losing its predominantly domestic character, the Midland Bank seems to adhere most tenaciously to the traditional policy of the English joint-stock bank.

(b) Extensive agency relations with foreign banks throughout the world have confirmed the Midland Bank in the policy of avoiding competition in the territory of its correspondents. Sir Edward Holden, whose principles the Midland Bank is following to-day, was the pioneer in acceptance, collection and foreign exchange business among English joint-stock bankers. A considerable business has been built up by reciprocal services with important foreign banks attracted to agency arrangements with this powerful institution, and at present the Midland Bank enjoys a more extensive acceptance business than any other member of the "Big Five" group.

The present Chairman holds that the establishment of branches or controlled "foreign" banks would be costly in

¹ Against the loss of holding idle this large sum must be placed the somewhat larger proportion of assets in column 6, and the smaller proportion appearing in column 3.

the good will of cooperating native banks, which expect right of way in their own field and a certain amount of exchange and collection business. These close-working arrangements enable the Bank to meet satisfactorily the needs of its clients. It is maintained that their interests must not be endangered by hazardous, though profitable, new ventures committing the Bank to obligations of indefinite magnitude far from its base.¹

However, the independent policy of the Midland Bank is as much the result of evolution as of close reasoning. Foremost among English banks in perfecting agency arrangements overseas, it is natural that it should have hesitated to enter, itself, into foreign deposit banking. The advisability of establishing a foreign bank, or branch, in France has been twice reconsidered and as often rejected. Yet it is difficult to say whether the direct competition of other "Big Five" banks in Belgium, France, and Spain, or their indirect competition elsewhere by affiliated foreign banks, has led any native banks to transfer their British business to the Midland. Such things are hard to trace. Probably the Midland has gained more than its share of new business because of the policy of its competitors, and for this reason finds an independent course more profitable than it might otherwise be.

In considering the motives of the other banks in entering the foreign field during recent years, it becomes evident that there is no intention of expanding indefinitely, or of

¹ This paragraph from the Chairman's address at the Annual General Meeting of Stockholders in 1921 states the whole matter succinctly:

"We have no branches or affiliations abroad. . . . We have refrained from competing with our foreign friends in their own country and I cannot help thinking that we have gained favor in consequence. We have no present intention of deviating from this policy, which, besides having the merit of enabling us to extend our relations with foreign banks, gives greater security to our domestic depositors by restricting our activities to the home field."

absorbing the peculiar functions of other financial institutions.¹

(a) The demand for facilities from an unprecedented foreign trade and the desire of British bankers to be on hand for reaping the fruits of an expected Continental boom encouraged them to push out feelers. Indeed it is likely that, without the war and the following inflation, the joint-stock banks would not have become very active in adjacent European countries. The anticipated prosperity did not materialize; but it is an interesting fact that the unsettled exchanges, and the troubled conditions of Europe have given British foreign branches a considerably greater deposit business than their superior facilities would alone have earned them, while there has naturally been much activity in transferring balances from a less to a more certain currency.²

(b) Although foreign banking has been on the whole profitable, it was entered primarily for the accommodation of domestic clients. Earnings have been subordinate to service. Conveniences of deposit, exchange and collection, have been provided for British travelers, exporters and importers. Certain acceptance facilities which could not as readily be granted by merchant bankers and acceptance houses³ have been developed. The general attitude among officials is that they had to offer these services. It is probably more accurate to say that they did not relish losing a

¹ See Section V. Several prominent bankers hold that the limit of extension in foreign fields has been reached.

² Undoubtedly the several "foreign" (British) banks subsidiary to different banks of the "Big Five" have contributed to the weakness of the franc by the ease with which they convert deposits in francs to sterling, or arrange the purchase of sterling securities. French banks, like the *Credit Lyonnais*, also do considerable security purchasing for their clients; but the English banks can more readily convert a franc deposit by mere book entry.

³ See Section V.

part of their clients' business (and a corresponding amount of profit) if they could as well undertake it themselves, and in so doing train part of their staff in the technique of overseas banking.

(c) The competition with foreign banks is therefore more apparent than real. Deposit accounts in France, Belgium and Spain are largely for British firms operating locally, or for native firms in connection with their British business. The same is true of loans and advances. Deposit accounts for foreigners in the local currency and for local purposes are not refused; nor are they solicited. It is stated above that the efficiency of British banking, and the untoward conditions on the Continent have brought much business, but the competition does not seem to have been active enough to create open ill-will among Continental banks acting as agents and correspondents.

(d) A further reason for the creation of "foreign" banks, and affiliation with British institutions operating overseas is the desire to obtain current information from entirely dependable sources.¹ American are not the only banks which suffered from the "boom" and its aftermath of "frozen credits", unclaimed goods, and sacrifice sales in 1920 and 1921. In an earlier chapter the intelligence work of the British Overseas Bank was referred to as an attempt on the part of its constituents to develop an "all British" information agency. This is another illustration of the movement away from dependence upon foreign sources.

The entrance by the "Big Five" through their "foreign" banks into the field of foreign banking has not gone further than Spain, France and Belgium.² If other British banks

¹ This has recently been emphasized by the Deputy Chairman of Barclays.

² Save in exceptional instances (see Section III).

had not pioneered in Latin America, Asia and Africa, the great banks would doubtless have been compelled, for the benefit of their clients, to establish branches for the purpose of offering ordinary banking services. As it is, the extension of interest in these wider areas has come by way of affiliation with Colonial and other British overseas banks,¹ and mainly for reciprocal business and the exchange of information. The same is true of connection through common directors.

II. FOREIGN BRANCHES. FOREIGN BANKS

The four banks in the "Big Five" group which maintain direct foreign agencies do so for the most part by subsidiary "Foreign Banks". These are listed in the next section. They are private British Limited Companies owned outright by the parent banks. The staff and offices are, of course, entirely separate, but the interests of the main and "foreign" banks are completely merged by interlocking directors.

The "foreign banks" do not act as overseas departments for the parent banks. Each one of the "Big Five" has an active foreign department (or "overseas branch"). The offices of the "foreign banks" are in adjoining Continental countries, where they engage in deposit and commercial banking, offer facilities ordinarily required by British traders, and act as correspondents for the parent banks in quite the same way as any closely allied non-British institution might do. There is therefore no active competition between the overseas department² and the "foreign bank". The

¹ See Section III. An important recent step has been the acquisition of Cox & Co., with their important Indian and Egyptian branches, by Lloyds (February, 1923). Thus Lloyds will virtually have branches of its own in the Orient in much the same way as though another subsidiary "foreign" bank had been formed to operate in these regions as an arm of Lloyds.

² For the range of its activities, see Section IV.

maintenance of a separate institution may simplify administration; as it certainly does diminish capital risks.

The principal reason for establishing separate "foreign banks" rather than foreign branches is the desire to escape the burden of excessive foreign taxation. A recently imposed Spanish tax was levied on the entire capital of any foreign bank having branches in that country. This heavy charge would have wiped out any profit accumulating from operations in Spain, and as a result the Westminster Bank transferred what remained of its branches in Spain to the jurisdiction of London County Westminster & Parr's Foreign Bank (Paris), whose capital is, comparatively speaking, a modest sum. Similar dangers lurk in possible French and Belgian taxation and are countered by the registration of separate companies.

There is another and less obvious factor. The moral support of the parent bank is always implied, and for ordinary purposes is much the same for a subsidiary as for a direct branch. Upon opening any new office, there is an undertaking to provide for the legitimate needs of the local client, and under no condition can the branch be left in the lurch. On the other hand, it is at least conceivable that in time of great stress the parent bank could abandon its subsidiary by refusing to go beyond a certain point in meeting the demands of its foreign clients. The capital investment in the shares of the owned bank would be wiped out, but its failure could not involve the parent bank, whose depositors would be safe. This is, however, an element of theoretical rather than practical safety.

III. PRINCIPAL FOREIGN INTERESTS OF THE "BIG FIVE"

The following is a schematic arrangement of the principal foreign interests of the "Big Five".¹ The lists of

¹ See also Appendix III for further details.

foreign agency and correspondent banks are not given, as the latter are very numerous and can readily be found in the standard reference books. Interlocking directorates cited below may or may not be of significance:

A. BARCLAYS

1. Barclays Bank (Overseas) ¹

Branches:

France	Bordeaux, Boulogne, Cannes, Havre, Lyons, Marseilles, Mentone, Monte Carlo, Nice, Rouen
Germany	Cologne ²
Algeria	Algiers, Oran

Date of Organization1922

Capital:

Subscribed	£1,000,000
Paid up	£ 250,000

2. Affiliated Banks operating outside the United Kingdom and Ireland in which Barclays has a controlling, or important, interest:

Anglo-Egyptian:

Date of Organization	1887
Paid-up Capital	£600,000
Percentages held by	
Barclays' Bank	94%
Date of acquisition of interest	1920

¹This is an outgrowth of Cox & Co. (France) Ltd. The latter was founded by Cox & Co. and the London and South Western Bank Ltd. (now Barclays). The following banks also became shareholders: National Bank of South Africa, British Bank of South America, Bank of Taiwan, Banque d'Athènes and several others. In May, 1922, Barclays Bank (Overseas) was registered to take over Cox & Co. (France). The former is owned by Barclays Bank and maintains the foreign offices of the earlier Company, which dates from 1915.

²For accommodation of Army of Occupation.

3. Interlocking Directors in other important institutions operating overseas:

Through Chairman or
Deputy ChairmanColonial Bank
Through other DirectorsBank of New Zealand (London
Committee)
Banque d'Athènes
British Bank of South America
British Trade Corporation
National Bank of South Africa

B. LONDON JOINT CITY AND MIDLAND

Interlocking Directors in important institutions operating overseas:

Through Chairman or one of
the Deputy ChairmenNone
Through other DirectorsAnglo-Egyptian Bank
Bank of New Zealand (London
Board)
Banque d'Athènes (London
Committee)
British Trade Corporation
London & Brazilian Bank
Mercantile Bank of India
Standard Bank of South Africa

C. LLOYDS

1. (a) Lloyds and National Provincial Foreign Bank.

Branches:

BelgiumBrussels, Antwerp
FranceParis, Biarritz, Bordeaux, Cannes,
Havre, Marseilles, Nice, Roubaix,
Rouen, St. Jean de Luz
GermanyCologne¹
SwitzerlandGeneva
Date of Organization1911²

¹ For accommodation of Army of Occupation.

² Established 1911 as Lloyds Bank (France) when the business of Armstrong & Co., Paris, was acquired. Present name in 1919. This is a private Company whose shares are jointly held by the banks whose names it bears.

Capital:

Subscribed£1,200,000

Paid-up 480,000

Percentage capital held by

parent bank50%

- (b) By taking over Cox & Company¹ the latter's branches are acquired, viz.:

EgyptAlexandria, Cairo

IndiaBombay, Calcutta, Karachi, Kurrce,

Rangoon, Rawae Pindi, Srinagar

(Also the Indian branches of Messrs

King, King & Co. and Messrs King,

Hamilton & Co. acquired by Cox

& Co. when they took over the

banking business of Henry S. King

& Co. in 1922)

Date of Organization1758

Capital (paid up)£650,000

2. Affiliated Banks operating outside the United Kingdom and Ireland in which Lloyds has a controlling, or important, interest:

Bank of British West Africa:

Date of organization1894

Paid-up capital£1,200,000

Percentage held by Lloyds ..12½%

London and River Plate Bank:

Date of organization1862

Paid-up capital£2,040,000

Percentage held by Lloyds ..99%

National Bank of New Zealand:

Date of organization1872

Paid-up capital£1,000,000

Percentage held by Lloyds ..12%

¹Through the absorption of Cox & Co. (February, 1923) Lloyds acquires important direct Indian and Egyptian branches. The former long-established private banking firm will probably disappear as an entity, its liabilities as well as its banking and Army Agency business (and the banking business of Henry S. King & Co. recently acquired by Cox & Co.) being taken over by Lloyds. Thus within a few months may drop from sight one of the oldest and best known private banking firms in England.

3. Interlocking Directors in other important institutions operating overseas:

- Through the Chairman or Deputy Chairman British Italian Corporation
P. & O. Banking Corporation
- Through other Directors Bank of Australasia
National Bank of New Zealand
National Bank of South Africa
Standard Bank of South Africa
Union Bank of Canada (London Committee)

D. NATIONAL PROVINCIAL & UNION BANK

1. Lloyds and National Provincial Foreign Bank.

- Branches, etc. (See under C.)
- Percentage held by parent bank—50%.

2. Affiliated Banks operating outside the United Kingdom and Ireland in which the National Provincial and Union Bank has a controlling, or important, interest:

Bank of British West Africa:

- Date of organization 1894
- Paid-up capital £1,000,000
- Percentage held by N. P. & Union Bank 11%
- Date of acquisition of interest 1920

3. Interlocking Directors in other important institutions operating overseas:

- Through Extraordinary Directors Banque Belge pour l'Etranger
(London Committee)
Union Bank of Australia
- Through other Directors Bank of Australasia
British Italian Corporation
Chartered Bank of India, Australia & China
Commercial Bank of Spanish America
London & Brazilian Bank
National Bank of New Zealand
P. & O. Banking Corporation
British Trade Corporation

E. WESTMINSTER BANK ¹1. London County Westminster and Parr's Foreign Bank.²*Branches:*

Belgium	Antwerp, Brussels
France	Bordeaux, Lyons, Marseilles Nantes, Paris
Spain	Madrid ³

Date of Organization1913

Capital:

Subscribed	£2,000,000
Paid-up	£1,080,000

Percentage capital held by
parent bank100%

¹ Formerly London County Westminster & Parr's. Name shortened February, 1923.

² Established September, 1913 as London County and Westminster Bank (Paris); name changed in 1920. On October 1, 1920 the direct Spanish and Belgian branches of London County Westminster & Parr's Bank were transferred to this auxiliary, whose paid-up capital was increased by calling up an additional £2. 10s. on 92,000 shares. This giving up of direct foreign branches followed the imposition, early in 1920, of a Spanish tax on the total amount of the nominal capital and reserves of all foreign banks in Spain. The Paris bank was therefore converted into a Foreign Bank, with power to carry on business anywhere on the Continent or abroad. The balances taken over by the Foreign Bank on account of the Spanish and Belgian businesses amounted to more than £12,000,000. In referring to the expansion of their foreign business, the Chairman of London County Westminster & Parr's said in the Annual Meeting of 1921: "This rapid growth is not without its signs of jealousy among some of the native banks, notably in Spain. Our view is that there is only international gain in the establishment of banks in mutual relations in foreign lands, and we cordially invite Spanish banks to establish themselves in London." It is interesting to note that the above bank established its Spanish offices in 1917—a new departure at that time. The Belgian branches were organized in 1919.

³ Several other Spanish branches recently closed.

2. Affiliated banks operating outside the United Kingdom and Ireland in which London County Westminster and Parr's has controlling, or important, interest:

Bank of British West Africa:

Date of organization1894
 Paid-up capital£1,200,000
 Percentage held by London
 County Westminster & Parr's 11%

Royal Bank of Canada:

Date of organization1869
 Paid-up capital\$20,400,000
 Percentage held by London
 County Westminster & Parr's 5%

3. Interlocking Directors in other important institutions operating overseas:

Through Chairman or one of

the Deputy Chairmen British Italian Corporation
 Chartered Bank of India, Australia
 and China
 P. & O. Banking Corporation

Through other Directors

Bank of Roumania
 Colonial Bank
 English, Scottish & Australian Bank
 Hambro's Bank
 Hongkong & Shanghai Banking Corp.
 (London Committee)
 Imperial Ottoman Bank
 London Merchant Bank
 Standard Bank of South Africa
 Union Bank of Australia

IV. SERVICES RENDERED BY THE "BIG FIVE" IN CONNECTION WITH INTERNATIONAL TRADE

The balance-sheets of the "Big Five" give no separate statement of business incurred primarily for the international movement of goods. The "foreign" banks, being private companies, publish no figures whatever, and estimates would be mere guesswork. However, the item "ac-

ceptances and engagements" appearing in statements¹ of the great banks must represent in the main overseas business. The importance of wide agency relations with foreign banks is reflected in the larger acceptance figures² of the London Joint City & Midland, although this is a comparatively small line of business for any of the domestic banks.

Actual acceptances probably constitute the greater part of the liabilities incurred as "acceptances, endorsements, engagements, etc."; most of the rest are confirmed credits entered at the maximum figure, and transferred to acceptance or other liabilities, as the case may be, when the credit has been made use of. Both sight and time drafts are accepted, and the joint-stock banks offer the usual services in handling documents and collecting bills.

Acceptances granted by the joint-stock banks in favor of foreign firms or individuals are incurred at the instance of overseas correspondent banks and on behalf of the latter's clients.³ The liability thereby contracted takes the form of credits granted on account of the agency bank rather than the one for whom the bill is drawn. This enables the banks to handle with comparative safety a large volume of bills having unknown foreign names. For certain domestic importers—particularly of raw cotton—bills are accepted without the mediation of a foreign bank, but this is service to

¹ Classified monthly returns for all of the Clearing Banks are now published regularly by the London Bankers' Clearing House.

² 60% to 70% of the item "Acceptances and engagements" for the Midland Bank represents acceptances arising from the actual transfer of goods.

³ The name of the firm on whose behalf the acceptance credit is opened appears on the bill. In certain South American countries the banks draw direct, covering in one bill a number of smaller discounted drafts. Although these instruments have the appearance of finance bills, they are drawn only to cover actual movements of goods.

the bank's own clients in stable businesses long financed along clearly marked lines.¹

The accommodation enjoyed by each foreign correspondent rests upon its working agreement with London. The maximum credits to be opened on behalf of the former's clients may be roughly proportional to the amount of cash deposits with the British bank; or where the arrangement with the agency bank is new, securities may be held as a further factor of safety. Growing demands are met by raising the limits of accommodation and waiving specific guarantees as the correspondent banks prove their complete reliability. In their extensive ramifications the great banks have many trusted foreign correspondents with whom business is transacted on a basis of entire mutual confidence.

As a general rule, these working arrangements reduce to the minimum competition between the "Big Five" and their overseas agency banks with respect to deposits from foreigners. Individuals or firms desiring to open an account in London are frequently referred to their own banks with the suggestion that the London facilities desired be arranged through a correspondent bank. In a word, the foreign facilities granted by the "Big Five" are generally for, or through, their own clients. Overseas, their clients are principally banks. At home they are individuals, firms and companies.

The joint-stock banks are therefore not only an important factor in the acceptance market, where they are always buyers and lenders (directly and through the bill brokers) but they have also absorbed a share of the business of creating acceptances. Although the profits of this service are split between the London bank and its correspondent,

¹Certain cotton importers of Central Europe are also directly accommodated. They are to-day regarded as in a sounder financial position than the Austrian banks through whom the arrangements were made in pre-war days.

the fees are no higher than those of acceptance houses. The fact that London is still the clearing center of the world¹ has thrown a certain amount of business in the way of the "Big Five" which the natural development of their functions has led them to absorb.

The further services offered through the foreign departments of the great banks are of the usual type. Exchange is bought and sold,² and the derangement of the world's currencies has caused a considerable development of the market for futures.³ Exchange problems are simplified for domestic clients by bookkeeping services permitting the deposit in agency banks, on their account, of amounts due from foreign firms and held in foreign currencies. Securities are also purchased on foreign order.

V. THE JOINT STOCK BANKS AND PRIVATE BANKERS.

THE OUTLOOK

The interest of the "Big Five" in foreign business is largely a development since 1905. Rapid expansion of facilities did not occur until the war period and the years immediately following. Since 1914 the joint-stock banks have been steadily gaining on the private houses in the relative importance of their foreign exchange transactions. It is probably a safe estimate that in 1914 approximately 10% of the acceptances in London were made by the "Big Five"; and that at the present time they are responsible for at least 30%.⁴

¹ Not more than 20% or 30% of the total acceptances represent imports to or exports from the United Kingdom.

² A striking extension of service by the banks since the war has been the extensive dealing in foreign currencies and bills which, before the war, were principally handled by London branches of foreign banks.

³ Overdrafts are occasionally permitted for foreign clients who are purchasers of British goods, and for whom an immediate settlement would involve heavy losses through exchange.

⁴ As to this there is much difference of opinion and accurate figures are not obtainable. Compare the estimate given in Chapter I.

This does not mean that the domestic joint-stock bank is encroaching upon the peculiar functions of the acceptance house and the private bank. The most cordial relations exist between them, and there are undoubtedly certain types of service in which the commercial bank will always defer to the superior facilities of the merchant banker. Many directors in the "Big Five" banks are also partners in private firms, and it is universally admitted that the bill brokers, issue and acceptance houses among the latter are a permanent and essential factor in the London mechanism.

The British commercial bank does not issue — or even extensively underwrite.¹ Industrial banking is anathema. In undertaking acceptances it was prompted by the desire to meet the needs of its own clients, and only secondarily to enjoy a new source of revenue by extensive arrangements with foreign banks.

Moreover, it does not pretend to that intimate knowledge of a particular foreign country or region which many private houses have accumulated through generations of experience. There are not a few firms whose partners in earlier days traveled extensively, resided and even married in the countries of their chief interest. The result has been a clientele of foreign firms whose methods and credit have been tested in decades of merchandising. For these firms acceptances are granted outright. Obligations are directly assumed for overseas clients which the joint-stock bank, without a similar background of long commercial experience, would only assume through the mediation of a foreign bank.

The war has greatly changed the business of many of the private bankers. Despite the support lent by the government and the Bank of England in the early days of the war, several of them were considerably embarrassed by

¹ Except in the case of securities of the trustee standard.

reason of their heavy acceptances on Continental account, and one or two have altogether withdrawn from the acceptance business. It is also inevitable that altered economic conditions should change somewhat the areas of their specialization. For this reason, the following crude approximation should be referred to with caution. But it suggests the general field of regional and industrial (as for nitrates, chemicals, etc.) specialization for several of the more important private companies:

<i>Firm</i> ¹	<i>Area of Special Interest</i>
Kleinwort, Sons & Co.	Germany and the Continent, Cuba and South America
A. Ruffer & Sons	Chiefly Swiss business—formerly in Spain
W. Ladenburg & Co.	U. S. A. and Continent
B. W. Blydenstein & Co. ²	Holland and the Dutch Colonies
J. Henry Schroder & Co.	Extensively in Germany
Baring Bros. & Co. Ltd.	South America and Continent (Mediterranean, Greece, etc. (Formerly active in Russia)
William Brandt's Sons & Co.	Continent and South America

It is natural that a trader should make use at times of both the commercial bank and the acceptance house. When his foreign associates are clients of a private firm acceptances will be arranged through it. When they are not, his

¹To obtain a representative list of leading acceptance names the following, among others, should be added: Arbuthnot Latham & Co.; Brown Shipley & Co.; Frederick Huth & Co.; J. C. Im Thurn & Sons; Morgan Grenfell & Co.; E. M. Rothschild & Sons; and Seligman Brothers. Most or all of these acceptance firms enjoy discount privileges at the Bank of England. Higginson & Co., though issuing and investment bankers, have recently entered the acceptance business, whereas of course the joint-stock banks, the Colonial and South American banks and overseas banks like the British Trade Corporation, Hambro's Bank and the British Overseas Bank, continually do business of this kind.

² Not an acceptance house.

bank may arrange for exchange through one of its correspondent banks in the country of their domicile; or give its acceptance directly to the bill drawn overseas, in order to accommodate the British business man.

Despite the considerable interest acquired in foreign transactions by the "Big Five" it is not likely that they will lessen their emphasis upon domestic deposit and commercial banking, which constitutes their "bread and butter" business. Specialization will continue to characterize the British financial system, and there are no indications that any of the great institutions will develop into "department stores of foreign and domestic banking". In fact, the impression is general that the limit of foreign expansion has been reached, and that the next few years will witness a consolidation of the domestic business of the "Big Five" and a shaking-down into their clear-cut functional activities of the different kinds of financial institutions with which London is so richly blessed.

As few American banks operate extensively overseas or specialize in particular foreign areas, the expansion of our commerce may place the larger of our institutions under a more urgent necessity of establishing foreign branches or subsidiaries. Although the recent experiences of American banks in financing exports have not been altogether happy, the British banker looks for new developments, if only because their heavy gold holdings give them an adequate margin for further experiment.

PART III
LONG-TIME CREDIT
INVESTMENT TRUSTS AND KINDRED INSTITUTIONS

CHAPTER VIII

PURPOSE AND CHARACTERISTICS OF BRITISH INVESTMENT TRUSTS

THE English and Scottish Investment Trusts have been the most important factor in the export of capital from the United Kingdom. This is true of the Dominions and Colonies as well as of every foreign nation whose resources have been developed by British advances. A résumé of the activities of these "trusts" should prove suggestive to American investors, as our country has drawn upon the coffers of England more heavily than any other, and we have at last attained our creditor position at a time when the rest of the world is much in need of our capital.

Owing to the lack of basic information in the United States concerning the organization and management of these important institutions, it seems advisable to deal with them at length. For this reason the greater part of the following chapters is devoted to an analysis of British investment trusts, of which our bankers and business men may sooner or later develop the American equivalent.

The investment trust, which is also called a "financial trust", or "trust company" in England, is not the British equivalent of the American trust company. The latter has been aptly termed "The Department Store of Finance", while the former is largely an investment company, departing little, even in its corporate form, from the more strict interpretation of the term "trust". Of the wide variety of services rendered by the typical state trust company in the American system—banking, fiduciary, agency, and in-

vestment—the true “investment trust” concerns itself primarily with the latter and only incidentally enhances its current income by trusteeships, registrarships, secretaryships, and other commonly accepted trust-company powers in America. The investment trust might also be compared with the insurance company, the commercial or savings-bank, and any business organization having considerable investments. The latter, however, are not principally financing or investment concerns, but buy securities primarily as a means of profitably employing and safely mobilizing their assets.

There are two types of British companies employing capital derived from the issue of their own stocks and bonds, and re-investing this in the securities of foreign enterprises. The one is referred to as the investment trust, and the other as the financing, issuing or promoting company. The former deals with investments, and the interest and dividends therefrom, never distributing profits realized through selling securities in the process of changing investments. The financing company, on the other hand,¹ writes such gains into its appropriable revenue, as well as all other forms of net income derived from its promoting business, whether interest, rents, merchandising gains, issuing profits, or returns on speculative securities.

Official lists do not accurately distinguish between these types. For instance, there appear in the published company lists of the Stock Exchange Committee about one hundred and fifty “Financial Trusts” (ordinarily called “investment trusts”), and under the same title the *Stock Exchange Ten-Year Record*² gives a few less than a hundred.

¹ See discussion of accounting methods of investment, as contrasted with financing, companies, in Chapter XII.

² A record of prices and dividends compiled with ten-year comparisons by Frederick Mathieson & Sons, London. Latest edition 1922.

Under the title "Financial, Land, and Investment Companies" both of the above sources list a large number of what may be called "financing" companies, among which will be found a sprinkling of investment trusts, and many companies carrying on a combination of investing and financing business. The actual investment trusts must be selected from these larger lists by examining the nature of each company's business. Through the courtesy of several investment trust officials, and by studying published reports, it has been possible to segregate about seventy-five companies which are properly investment trusts, and which include the majority of institutions of this type. The companies are given in Section A of Appendix IV, and as far as possible they are classified in the several groupings formed by interlocking directors or identical managements.

The companies listed in Section A meet the following tests of a general investment trust:

1. They raise capital, with few exceptions, by issuing ordinary and preferred stock; and they exercise their borrowing powers by selling debentures.¹

2. They invest the funds so obtained in a wide variety of offerings, distributing risk over many industries, countries or types of issue.

3. They appeal to the cautious middle-class investor by offering both proprietary and creditor stock of reasonable denomination; and by protecting his interests, whether he holds shares or bonds, by conservative management of the capital account.

No list of this kind can be considered complete because of the large number of companies in the twilight zone between investing and promoting business. Thus a debenture-issuing trust company may purchase stock for investment

¹ The term "debenture" has a different implication in English than in American usage. See details in Chapter X.

purposes, and at the same time spend a portion of its funds in buying a controlling interest in some foreign or colonial enterprise, or helping to put new undertakings on their feet. Such trust companies are not included in Section A, but a few of the representative ones are enumerated in Section E, which also gives a number of companies ordinarily appearing among investment trusts, but really doing a financing business. If all of the active financing companies were added to Section E, there would be in the neighborhood of a hundred, with a total outstanding capital in 1921 of nearly one hundred and fifty million sterling, divided in about the proportion of one hundred and ten million in preferred and ordinary stock, and forty million in debentures.¹ Capital provided by such companies has been used to develop real estate, acquire land mortgages, sink mines, build railways, in fact to finance every kind of project. No hard-and-fast line can be drawn between financing companies which are actively interested in particular enterprises, and oil, railway, mining, and other concerns registered under the British Acts and engaging directly in some overseas business. The difference is that the financing corporation lends money to several enterprises, acting often as issuing agent, or holding company, whereas the latter are concerned with business, as contrasted with financial, profits.

The number of investment trusts in Section A would be increased if we included all those companies interested for the most part in investments, but concentrating their hold-

¹ In arriving at these totals, the following companies, which are for the most part engaged in financing railroads, are excluded: Central Bahia Railway Trust; Mexican Central Railway Securities; Rhodesia Rails Trust; Stock Conversion and Investment Trust; Tonopah and Tidewater; and one or two others generally rated as either "Financial Trusts", or "Financial Land and Investment Companies." The separate figures are taken from Mathieson's Record, and do not always agree with published reports of the several companies.

ings in some particular area, or industry. The companies in Section C are investment trusts of this kind, although the list is not inclusive. Such also are the trusts formed to absorb blocks of securities in certain companies. They are useful agencies in re-financing arrangements which aim to realize on otherwise unmarketable securities, or to convert them into more convenient denominations, types or maturities. In Section D several investment trusts of this kind are cited. They do not do a general business and are, therefore, omitted from Section A.

In what follows reference is had mainly to investment trusts in the narrower sense, and it will not be necessary to go beyond the companies in Section A. Their outstanding capital is at present in the neighborhood of one hundred million pounds sterling,¹ which is the figure ordinarily given by London trust-company officials. The fact that the totals of Section A so nearly approximate the figure in common use gives reason for considering it fairly inclusive.² This figure for 1921 compares with an outstanding capital of £75,000,000 in 1912 for the sixty-two companies of which earlier totals are given. The average outstanding capital of investment trusts in 1912 was £1,200,000 and in 1921 something over £1,300,000.

THE PURPOSE OF THE INVESTMENT TRUST

The investment trust offers good illustration of the saying "in union there is strength". These numerous companies have long stood as intermediaries between the home investor and the foreign undertaking, encouraging savings

¹ See Section B, Appendix IV.

² One estimate recently given the writer was £200,000,000. This referred, however, to the authorized capital of the investment trusts rather than their present outstanding capital. Moreover, a large number of trust companies engaged in other than investment business were included in the estimate.

and assuming risks. The reasons why they have played so large a part in internationalizing British investments may be summarized more fully:

1. In the first place, they have enabled the moderately-circumstanced investor to combine his savings with others so situated. These accumulated funds may be invested to advantage in securities too costly for the individual, either because they are of high value, or must be purchased in large lots. In this way the ordinary stock of the investment trust becomes virtually a participating certificate in the interest and dividends paid by foreign Governments and enterprises. As enterprises in less developed communities have generally offered a better return than domestic issues, and the same thing has been true of foreign public and private bonds, the shareholder has reaped advantages to which his small savings would not otherwise entitle him. While preference shares are generally non-participating, they have ordinarily offered favorable rates and have enabled savers of even greater caution to invest safely and profitably.

2. The borrowing powers of investment trusts, which are only limited by the Articles of Association, are a further source of profit for the shareholders. Rates offered on debentures, with their prior lien, are naturally less, and especially in the three decades 1870-1900 conditions in England have been favorable to low rates on any adequately secured bond.

3. The limited savings of these three main types of investors are judiciously distributed among many securities. As is shown below, the law of average keeps fairly steady the capital account of any well-managed trust. Thus an uninitiated investor in foreign industrials and governments is able to put his eggs in more than one basket, even though, strictly speaking, he has only one egg.

4. As the investment trusts are always managed by people familiar with foreign securities and often by high-grade men specializing in such management, the investors are given expert direction in the use of their funds at negligible cost. Some of the trusts are large enough to maintain foreign advisory committees, offices, or agents, and all but the smallest of them have in their managing director, or secretary, and his staff, a force competent to analyze critically any investments offered. Their directors are men of affairs who give the trust the benefit of their experience, and often open to it the same lucrative opportunities for participation which they have found personally profitable. Such arrangements are in the long run mutually advantageous, as they permit financiers with investment-trust affiliations to carry in their group a larger assignment of securities of unquestioned merit—perhaps at a time when the uninformed cannot appreciate their true value. The investment trust is cooperative buying in the financial world.

5. In the process of foreign investment there are continually arising problems with which the individual stockholder cannot cope. A government defaults principal or interest; an enterprise is being reorganized; floating debts are funded, and watered stock written off; a firm is going into receivership. In times of political disturbances or trade depression, the power of trust companies in defending the interests of their shareholders is immeasurably greater than any action taken by isolated groups. To quote a prominent executive—"Trust companies are frequently called into conferences in early stages in connection with capital issues, reorganizations or other matters affecting investors' interests, whereas the individual investor is usually faced with a 'fait accompli', and also again is frequently given insufficient time for proper investigation of matters affecting investments." Furthermore, the vigorous steps often taken

by investment trusts to protect minority stockholders, while usually directed to their own interests, make them a nucleus of protection for the small investor.

6. The Consolidated Companies' Acts allow the greatest elasticity in shaping powers and fields of operation. Special safeguards, as will appear later, are frequently written into the Memoranda or Articles of Association, and there are minimum requirements always voluntarily imposed which might well be borne in mind in any American experiments. These restrictions imposed upon managers by by-laws fitting the needs of each trust are modified as circumstances require, and stand as an added protection even in undertakings intrinsically sound.

There is quoted here practically in full the Memorandum of Association of the Investment Trust Corporation Ltd., which is typical of many others. This Trust was registered under the English Companies Acts in 1888, and has been signally successful in recent years—paying dividends of 12 per cent or over on its ordinary stock throughout the war and subsequently.

3. The objects for which the Company is established are:

(a) To raise money by share capital, and invest the amount thereof in, or otherwise acquire and hold, any bonds, stocks, obligations, or securities of foreign or colonial or British governments etc., or the bonds, debentures, debenture stocks, scrip, obligations, shares, stocks, whether preference or ordinary, and whether fully paid or not, or securities of railway and other companies, public works and undertakings incorporated or established by act of Parliament, Royal Charter, or under the joint stock companies' acts in England or the colonies, or by state authority, or under the laws of any foreign country or state.

(b) To borrow or raise money by the issue or sale of any bonds, mortgages, debentures or debenture stock of the Com-

pany, or in any other manner to receive money on deposit at interest or otherwise, and to invest the amount so obtained in securities or investments of the kinds enumerated in the last preceding sub-section.

(c) To acquire any such securities or investments as before mentioned by original subscription, tender, participation in syndicates or like negotiations, or otherwise, and whether or not fully paid up, and to make payments thereon as called up, or otherwise to acquire any such securities or investments in excess of the moneys for the time being proposed to be invested, and to sell or otherwise dispose of any excess thereof, to subscribe for the same, either conditionally or otherwise, and generally to sell, exchange, or otherwise dispose of any securities or investments of the Company, acquired or agreed so to be, to invest in or acquire by re-purchase or otherwise, any securities or investments of the kinds before enumerated, and to vary the securities and investments of the Company from time to time.

(d) To make advances upon, hold in trust, issue, buy, sell, or otherwise acquire or dispose of, on commission, or otherwise, any of the securities or investments of the kinds before mentioned, or to act as agent for any of the above or the like purposes.

(e) To make, draw, accept, indorse, issue, discount, and otherwise deal with promissory notes, bills of exchange, letters of credit, circular notes, and other mercantile instruments.

* * * * *

(g) To do all acts necessary for carrying on, in any foreign country or colony, any act of the Company necessary or expedient to be there carried on.

(h) To do all or any of the matters aforesaid, either alone or in conjunction with any other company, corporation, or person, and that either by amalgamation or otherwise.

* * * * *

From the above it will be seen that the Investment Trust

Corporation has assumed powers to enter into promoting and exchange operations. It might, if it chose, engage in all kinds of long- and short-time trade financing. This stands in contrast with the ruling of the Federal Reserve Board that no corporation organized under the Edge Act may both create exchange and issue debentures or collateral trust bonds. As a matter of practice, however, the Investment Trust Corporation is almost exclusively of the latter type and does not mix liquid and illiquid investments. What the Federal Reserve Board requires by formal ruling, the majority of British Investment Trusts have arrived at through long experience.

CHAPTER IX

INVESTMENT TRUSTS AND THE EXPORT OF CAPITAL

INVESTMENT trusts encourage the sale of foreign securities in the following ways:

- I. By investing their own funds in securities which they intend to keep;
- II. By sale of securities when markets are buoyant, and the continual turnover of a portion of their capital in the process of redistributing investments;
- III. By acquainting their own shareholders with the merits of particular issues which the latter may wish to purchase privately;
- IV. By directing public attention to the investment opportunities of certain areas, and instilling confidence by their own pioneer purchases; and
- V. By participating in underwriting syndicates.

I. DIRECT INVESTMENTS

The balance-sheet of any investment trust will show practically all of its outstanding capital of every kind invested in securities of long maturity. Because its liabilities are not current, like those of a commercial bank, it does not keep "cash at bankers" or loans on call to anything other than a negligible extent. The following description of investment methods employed by trusts in the United Kingdom is based upon an analysis recently made of the Articles of Association and reports of the seventy-five companies referred to as investment trusts in Section A of Appendix IV.

A. LIMITATION IN SIZE OF COMPANIES

The first thing one is likely to observe in perusing the list is the moderate size of the majority of the trusts. Section B shows the average total outstanding capital of these companies to be only £1,200,000 in 1912 and £100,000 more ten years later. As compared with banks and industrials, this capitalization seems small for companies whose business is investment, and the turnover of whose funds is comparatively slow. Moreover, in quite a number of cases new companies have been organized when more share capital was available after a certain size had been reached. This is true of such Scottish Trusts as the Edinburgh Investment Trust (Second, and Third Edinburgh Investment Trusts), the Scottish Investment Trust Company (The Second Scottish Investment Trust), and a number of others. There are several reasons why the apparent administrative economies of larger capitalization are not more generally enjoyed.

The grouping of the first list shows how common are interlocking directors and joint managers. One man, or one firm of accountants, will often serve as the manager of three or four trusts; and though they are legal entities their offices and forces will be merged. When investments are strong and permanent, an able executive needs to devote only a portion of his time to directing the work of the few clerks required for the routine. Where it is to the advantage of the trust to shift its investments, or where profits can be made on realizations, the most astute management is required. But even so, one or two secretaries or managing directors can exercise their skill for several companies at the same time, especially if the need of their investment business is similar. Thus several trusts can be run with the economy of one.

Smaller size makes it possible for those responsible to stockholders to watch continually every aspect of the trust's business. In many cases, the direction is a personal affair, and the board is expected to keep informed of the general distribution of the trust's assets. Even a small capital is split into many investments. By making an executive of several companies responsible to different boards of directors, a professional management may be checked through the knowledge possessed by each board of directors of the investments of its own trust. In Scotland the creation of new trusts is also an appeal to the canny investor, who desires to distribute his risk in several legally independent companies. Trustees are especially interested in the further security which this seems to afford. As touching security, however, such separation seems a legal fiction if the successive companies are under the same management. The informed investor dips into those companies whose personnel he has reason to trust, giving little attention to the foregoing factors.

The chief reason for splitting capital into several companies is probably the desire to obtain new Articles of Association, benefiting by the experience of the parent company without altering its traditional policy. It may be thought advisable to change the conditions of investment.¹ In other cases, a readjustment of the ratio of common to preferred stock, or of both to debentures,² is sought in the interest of ordinary stockholders. For instance, the Second Scottish Investment Trust was organized to obtain a more favorable distribution of the classes of capital. In the original company the share capital was divided into 50% preferred stock and 50% deferred stock; while the borrowing power is limited to 50% of paid-up capital. In the Second

¹ Conf. B. *infra*.

² See Chapter X.

company, the share capital is divided into 60% preferred and 40% deferred, and the borrowing power is 100% of the share capital. In the history of the Edinburgh Trusts, given below, there appear the different policies pursued by the same management in the distribution of dividends, the creation of reserve, and the issue of bonus shares. Much has been learned in this cautious experimenting made possible by the co-management of several trusts.

B. CONDITIONS LIMITING INVESTMENT IN DIFFERENT
SECURITIES

(a) *In General.*

The distribution of holdings is generally so broad that even in the largest trusts average investment in one security amounts at the most to a few thousand pounds. It is the practice among many not to participate to the extent of more than £7,000 or £8,000 in any issue.¹ The limitations imposed by the Articles of Association are in terms of percentages, however, rather than maximum amounts.²

The most common stipulation is that not more than 5% of the issued share and debenture capital shall be invested in one security or undertaking. Ten per cent is another limitation commonly imposed, while a few companies³ restrict themselves to 3% or 4%, and others set a figure giving

¹ Excepting government bonds during the war, and after.

² The Gas Water & General Investment Trust, Ltd. has a provision that "not more than £25,000 can be invested in any one security except in cases of securities of which the company is acting as an issuing house, or where it is desirable to exceed such limit in order to protect an existing investment—or where such limit is exceeded by reason of amalgamation of undertakings in which the company has made investments."

³ The Industrial General Trust; The Army & Navy Investment Trust; the Alliance Investment Trust; the Bankers Investment Trust and several others.

broader discretion to their directors.¹ Occasionally different ratios are set for original share capital, and for any capital raised subsequently.

It is often stated that there must be no investments involving unlimited liability, although the uniformity of corporation laws in respect to limited liability makes such a provision generally unnecessary. Frequently an exception is made, in conditions limiting investment, in favor of securities issued by the United Kingdom or by enterprises there situated. Two companies declare that securities of different titles or denominations are not to be regarded as one security, for purposes of investment, merely because they are issued or guaranteed by one body. Where the percentage is fixed, as rarely occurs, in terms of issued debenture capital only, the effect is the same, for debenture capital bears a definite relationship to share capital (see below).

(b) *Geographically*

Limitation of investment to certain percentages of capital in case of securities issued in or by any one country is not general. It is likely that this would have been more common had organizers foreseen the disturbed political conditions since 1914. In those few cases where it does occur there is lack of uniformity.²

¹ For instance, the First, Second and Third Scottish American Trust Companies, Ltd. An interesting provision is to be found in the Articles of the Indian and General Investment Trust, Ltd.—“Not more than one-third of the subscribed share and debenture capital can be invested in any one class of securities, nor can the company hold as an investment more than one-fourth of the capital of any one undertaking.”

² The Debenture Securities Investment Company has this Article: “At least 95% of the subscribed capital shall be invested in mortgages, mortgage debentures, debenture stock or bonds, but not more than 2½% of the subscribed capital shall be invested in any one security, and the total investments in undertakings of any one country, except England, are not to exceed 2% of the issued capital.”

(c) *By Type of Enterprise*

Under sections C and E of Appendix IV a list has been given of certain companies which are quasi-trusts, but which nevertheless confine themselves to investments in certain types of enterprises. As has been said above they generally combine a promoting and financing, with an investment business. Rails are a particularly popular form of investment among trusts, and quite a number of companies devote themselves exclusively to certain railway and public utility companies. Tea, coffee, rubber, mines, realty and oils also have each their list of companies. The investment trust proper, however, does not limit its participation by type of enterprise any more than by region. Confining its requirements to conditions sketched above it allows leeway to its directors in purchasing when and where the best terms are obtainable.

(d) *By Type of Security*

The better managed trusts judiciously mix a large amount of investment with a small amount of speculation.¹ They do not confine their purchases to fixed-interest-bearing securities. In fact the average trust company's list contains a larger proportion of unbonded and irredeemable securities than that of the insurance company or even the bank. In many of them there is a considerable inmixture of junior stocks and shares bearing no fixed interest and having no foreclosure rights. The same lack of uniformity appears in comparative holdings of preferred and debenture stock.

It is safe to say that the greater part of all capital rests in secured investments or preferred stock. The tendency during and since the war to purchase British government securities has shifted a larger proportion to the fixed in-

¹ Certain Scottish trusts have been particularly successful in buying junior stocks when prices were unduly depressed.

terest side. However, with a few exceptions,¹ there are no set conditions.

C. PUBLICATION OF INVESTMENTS

It would be easier to see how broad a distribution of investment results from the above limitations, if all the trusts were in the habit of publishing their holdings.

This practice, however, is not universal. Something over half of the investment trusts take the public into their confidence by printing annual lists. While complete, they are often not classified, and there is usually no résumé for the convenience of the reader. A number of companies not publishing lists give a classified summary sufficient to exhibit main tendencies, and the specialties of the active directors. Even where secrecy is observed it is not likely that any trust company would refuse to reveal its holdings to a stockholder, if the request were properly made. In some cases it is understood that the list may be viewed by the stockholder on certain days at the office of the company, or if an appointment is made with the secretary for that purpose.

Some of the most conspicuously successful trusts do not publish any detailed lists. It is felt that they would be handicapped in realizing on their holdings if the knowledge of the extent of those holdings were public property. The management by the directors along lines of their own experience means that revelation of the investments of the trust is a revelation of personal interests. Especially among promoting and financing companies there are obvious objections to such a procedure.² Moreover, where a company

¹As with the British Investment Trust, Ltd., the Foreign & Colonial Investment Trust Co., Ltd., the Debenture Securities Investment Co., Ltd., and the Railway Debenture & General Trust Co., Ltd. The latter invests only in debentures and government loans.

²For instance the Articles of Association of the British Empire Trust Company expressly provide that the Directors shall not be bound to publish lists of the investments.

is shifting its investments, any list, like an estimate of capital valuation, is an ephemeral thing. The majority of investors are, of course, only interested in the security of their income.

D. DISTRIBUTION OF INVESTMENT

The investment portfolio of the majority of trusts is truly cosmopolitan. The United States Debenture Corporation, for instance, has over 400 separate holdings,—and the same is true of the Investment Trust Corporation. The Scottish Northern Investment Trust reports over 470, while the Northern American Trust Co. has nearly 350. There follow a few statements showing distribution by class of undertaking, or by locality:¹

DISTRIBUTION OF INVESTMENTS IN 1922

United States Debenture Corporation

Debentures and Bonds	61%
Preference Stocks and Shares	24%
Ordinary Deferred Stocks and Shares	15%
	100%

The Scottish Northern Investment Trust, Ltd.

The funds of the Company are wholly invested in Stock Exchange Securities of 473 different undertakings, distributed as follows:

1. Railway and Industrial Bonds and Stocks in the United States of America and Dependencies	£ 154,431.	s. 7.	d. 11
2. Railway and Industrial Bonds and Stocks in Canada including Canadian companies operating elsewhere	168,259.	0.	2
3. Investments in Great Britain, including British companies operating abroad, War Loan Stock and National War Bonds	757,636.	17.	8
4. Bonds of Foreign Governments, Municipalities and Corporations, and miscellaneous investments	56,814.	7.	5
	£1,137,141.	13.	2

¹ Taken from Annual Reports of 1921 and 1922.

The Investment Trust Corporation, Ltd.

The Investments, 399 in number, are distributed as follows:

	<i>Percentage of Total Cost</i>
Bonds and Notes of Railways in the United States of America, including Street Railways	13.5
Guaranteed and Preference Shares of Railways in the United States	3.2
Common Shares of Railways in the United States	1.1
Bonds, Debenture Stocks, and Guaranteed and Preference Shares of Railways other than in the United States	22.0
Ordinary Shares of Railways other than in the United States	2.0
	<hr/>
Total in Railways, including Street Railways ...	41.8
Bonds, Debenture Stocks, and Guaranteed and Preference Shares of other companies	32.6
Ordinary Stocks and Shares of other companies	6.6
Foreign & Colonial State and City Loans	3.2
British Government Securities (£950,500 nominal)	15.8
	<hr/>
	100.0%

The United States and General Trust Corporation, Ltd.

The following shows the geographical distribution:

	<i>Percentage of Total Cost</i>
Great Britain	37.9
British Colonies and Dependencies	14.0
United States of America	11.6
South America:	
Argentine	16.4
Brazil	4.7
Other South America	6.7
Mexico	1.3
Other Countries	7.4
	<hr/>
	100.0%

The Anglo-American Debenture Corporation, Ltd.

	<i>Amount Invested</i>		
	<i>Bonds</i>	<i>Preferred Shares</i>	<i>Ordinary Shares</i>
	£	£	£
British Government Securities ...	417,049	—	—
Great Britain & the Colonies:			
Industrial & other companies ...	296,601	138,852	182,851
United States of America:			
Railway Companies	39,043	52,895	8,839
Tramway, Light & Power companies	90,767	44,714	677
Industrial and other companies	24,645	32,847	7,315
South American and Other Foreign Countries:			
Railway Companies	123,879	13,315	56,081
Tramway, Light & Power companies	54,659	9,546	10,143
Government Securities and Industrial and other companies	69,089	18,233	48,939
	<u>1,115,732</u>	<u>310,402</u>	<u>313,945</u>

It is regrettable that for so many of the companies figures are not accessible showing the spread of interests. Even if they were, any quantitative estimates would involve a laborious checking-over of unclassified investment lists.

II. SALE OF SECURITIES IN THE INVESTMENT PORTFOLIO¹

A. DEBENTURES AND THE UNDERLYING SECURITY

Almost without exception the British investment trusts issue debentures¹ rather than collateral trust bonds. They may, therefore, alter the underlying investments, provided only the proper capital is maintained. Within the conditions imposed by each trust upon itself, the capital derived from sale of ordinary and preferred stock may likewise be used at the discretion of the directorate.

¹ See Chapter X.

The investment trust is awake to opportunities of profitable purchase or sale. Even though it is not increasing its capital, the maturity of some of its securities continually raises the problem of re-investment. Where unusual offerings are open, the trust may anticipate maturities and borrow from banks by collateral loan a sufficient sum, which, added to its loose capital, will allow it to participate. There may be occasions when a trust chooses to dispose of its holdings, even though they yield a good return, either because unfavorable developments are feared, or the price is such as to afford a handsome profit.¹ It is the duty of the secretary or manager to call the attention of the directors to advisable changes and to act upon their decisions. In fact the strongest trust companies often turn over a considerable amount of their funds in a year.

B. FLEDGLING STOCKS

The cable address of a great English firm having much to do with trust-company management is "Fledgling Stock". It is legitimate for an investment trust to acquire securities comparatively new or unknown, provided their analysis proves the fledgling capable of later flight. Between the real value of some issues, and the estimate which an uninformed public puts upon them, is occasionally a broad margin. Because the trust is "par excellence" a discriminating investor, it may often "get in cheap" by subscribing; or again, where an issue has failed and hangs on the guarantors' hands, the chance occasionally comes to acquire lots at a substantial reduction from the underwriters' costs. This frequently happens for reasons not connected with the real value of the security, which, after a few months of nursing, may find its true level on the exchanges. To quote one London authority:

¹ Patriotic motives, of course, operated during the war.

Since the boards of investment trusts are often behind the scenes in regard to what is happening to defaulting bonds and debentures, there are occasions when it is wise for them to purchase these silent securities for the sake of capital profit, which is sometimes a practical certainty within a comparatively short time.

Many issues have thus, either at the beginning or some time in their career, graduated from the investment trust portfolio, and left a substantial capital profit to their former owners when they became able to make their own way in the world. The investment trust has, therefore, been the chief means of infiltration into the United Kingdom of securities which otherwise the mass of investors would not have learned to handle.

The turnover of trust capital has run along certain grooves of late years, and the tendencies are summarized in Chapter XIV.

III. AND IV.

It is impossible to arrive at any quantitative estimate of the volume of securities placed by trusts privately among their chief stockholders. That it must be considerable follows from the many investing opportunities open to them, and of which they are at times not in position to take full advantage. Nevertheless the investment trusts are not brokers or brokers' agents. They do not ordinarily maintain investing departments or actively promote sales of securities among their clients.

The influence of their pioneering work has been felt in many quarters. Their directors have cooperated with Committees of the Corporation of Foreign Bondholders, which was established in the early 'Seventies at the time when the oldest investment trust was launched. They have rendered a similar protective service to bondholders in private under-

takings, although in their own interest. They have drawn public attention to new fields of profitable enterprise.

V. PARTICIPATION IN UNDERWRITING SYNDICATES .

A chief service of the investment trust lies in participation in underwriting syndicates.

Following the division of labor so characteristic of the British financial system, the commercial banks do little underwriting. It is generally the practice for underwriting agreements to be made through groups of companies or prominent financiers having affiliations with investment trusts. The relationship enjoyed by small companies with other trusts and financial houses, through their directors, secretaries, accountants or managers, gives them the advantage of combining underwriting fees with substantial investment opportunities. On the other hand, their influence in many corporations of small capitalization gives certain British firms and individuals surprising power of participating in promotions and underwriting agreements. A glance at some of the groups of Section A will illustrate this. Thus we see companies doing a purely investment business, but at the same time passively lending the weight of their combined support to certain promising promotions.

The investment trust is interested in more than its underwriting commission. It rarely guarantees its quota unless it is convinced that the security would make a good investment in case it becomes necessary for the trust to carry its portion. This attitude contrasts with the haste shown by many underwriting houses to unload an unsuccessful issue at sacrifice prices, or to carry it by loans at bank. The fact that the trust is frequently in a position to purchase outright, and to retain through its probationary period the full quota it underwrites, introduces an element of stability into the English investment market for higher-grade offerings

of which there is perhaps no equivalent in America.¹ The great majority of issues are, of course, readily absorbed. If a trust is particularly anxious to invest in what it considers a good offering, it speaks for the privilege of buying a certain proportion of its underwriting guarantee, and its order is then entered on the brokers' books as a public subscription.

Robert Fleming & Company are one of the larger firms offering such service to investment trusts in which any partner has a direct interest. They are London representatives of many Scottish trusts. Their senior partner, whose early affiliations were with Dundee groups, is an originator of the trust idea, and the part played by him in the development of American railways is well known in the States. The first group of Section A is of trusts with which this firm are particularly concerned, and for whom they serve as eyes and ears in contacts with the financial world.

The British Trusts Association, Limited, is an interesting new development. It is a corporation whose shareholders are financial and investment trusts and whose 87-odd participating companies are kept advised of new promotions, and share underwriting fees. Its officials claim that the British Trusts Association will also be in a position to assist its members in safely distributing their investments, and the combined strength of the shareholding companies is such that the Association plays its part in underwriting many important issues, the nature of which is, of course, not publicly known. The aggregate investing capital of the shareholding companies is from £70,000,000 to £100,000,000—although the occasional connection of trusts with

¹ It is estimated that the greater part of capital required during the expansion of corporate enterprise in the United States in the early years of this century was supplied by collateral loans of banks, which made it possible for promoters and underwriters to carry undigested securities until they had won their way to settled places on the exchanges.

more than one group means that this is probably an over-estimate of the potential strength of the Association. Thus several companies of the first group of Section A participate in the British Trusts Association, although they also enjoy the services of Robert Fleming & Co.

There follows a published statement of the purposes of the British Trusts Association:

THE BRITISH TRUSTS ASSOCIATION LIMITED has been incorporated, as its name implies, for the purpose of enabling the various British Trust Companies to act together in the selection and acquisition of securities and as a central investigating organization.

The Association, as its modest capital implies, has not been formed with the object of trading on its own account, but primarily of acting as a medium for the thorough examination of any issues and propositions involving the provision or outlay of capital that may from time to time come forward, and particularly to negotiate to supply such capital to approved British concerns and enterprises.

* * * * *

The pooling of the financial experience and influence of the British Trust Companies is a feature of inestimable value in securing the closest investigation and correct appraisal of the value and desirability of securities and propositions of a financial nature.

It becomes more and more apparent that British finance, apart from the Joint-Stock Banks, will be urgently called upon to support the efforts of British industry to regain and maintain its pre-eminent position in the world's trade, and it is particularly in respect of issues which will assist to this end that the Association will play an important rôle. In addition the Association will be prepared to consider the purchase of blocks of suitable securities which for various reasons, such as liquidation of estates, may have to be sold, distributing them amongst its shareholders and thereby preventing the great dis-

turbance of values which would result if they were thrown on the market.

The enormous power of the Trust Companies concentrated by means of the Association will carry great weight in leading and guiding the investment of British capital. In addition to this the combination brought about by means of the Association will provide a useful avenue for those seeking capital or the placing of securities by enabling them to address one central authority instead of each Member separately.

If after careful scrutiny and investigation the Directors of the Association are satisfied that a business offers proper safeguards, and inducements, they will offer participations to the Trusts and Finance Companies comprised in the list of Shareholders of the Association and where necessary form special Syndicates to deal with propositions which may require further development before the issue of the final securities.

It may also be anticipated that issues in respect of which public appeals are made and which are known to have been approved by the collective judgment of Members of the Association, will be more readily taken up by private investors. Further, by reason of the widespread activities of the various Trust and Finance Companies comprising the Association a broader field of investors will be secured. . . .

The Association has grown rapidly since its organization. Starting with 20 members, it now has 87 shareholding trusts. Its issued share capital amounted to £18,000 in 1918 and has increased to £130,000. Its balance-sheets show an ever smaller proportion of assets as "cash at banks", and the greater part of its working capital is now in securities, although the rate of turnover and the proportion used on collateral loans is probably greater than for the typical trust company. Unlike the latter, its income is derived in the main from commissions and underwriting profits. Dividends on its ordinary stock (there is no preference or debenture) have averaged 8%, minus income tax, in the four years since its organization.

As described above, the British investment trusts have employed their capital of £100,000,000 in such a way as to encourage foreign investments of far larger amount. They are but one factor in the mobilization of British savings, which before the war permitted an annual exportation equivalent to many times their total resources. They are nevertheless a most important element and certainly the principal agency by which the conservative investor makes his influence felt.

CHAPTER X

HOW INVESTMENT TRUSTS RAISE THEIR CAPITAL

INVESTMENT TRUSTS offer the public three principal kinds of securities — ordinary stock, preferred stock, and debenture bonds. As with other corporations, there are different varieties of each. In the following paragraphs an attempt is made to show the relative advantages of these several ways of raising capital.

I. PROPRIETARY CAPITAL

A. Common (Ordinary) Stock

This represents a scant one-third of the average capitalization of investment trusts, the other two-thirds being almost equally divided between preferred and debenture stock. The average for ten years earlier¹ shows about 28% in ordinary stock, approximately 34% in preferred, and the rest in debenture.

The diminishing importance of debenture stock, comparatively speaking, reflects the higher rates which must be paid on fixed-interest securities. At the time when the majority of larger trusts were organized (the late 'Eighties) the practice of issuing debentures was well-nigh universal. Money could be borrowed at four per cent and re-invested in fairly steady foreign securities bearing a much higher return. The margin between interest paid for capital, and interest and dividends received on investments constituted an important source of income for the common stockholder.

¹ Section B of Appendix IV.

To use a simple illustration,¹ let us assume that in the 'Eighties or 'Nineties the total capital of a typical trust is divided in the proportions of one-third ordinary, one-third preferred, and one-third debenture. This ratio was not uncommon, it being the practice to issue debentures to at least one-half of the share capital,² and preferred from fifty to sixty per cent. The debentures could be sold on a four per cent yield basis and would carry a long maturity. The preferred must command a slightly better rate—let us say four and a half to five per cent. The total capital, inclusive of that raised by the sale of common stock, could be invested conservatively to yield five and a half to six per cent. On two-thirds of its investments, therefore, the trust has, for nothing more than a small administrative cost, a return of at least five and a half per cent for an outlay of four and a half. This represents a net interest of two per cent on the equivalent of the common stock. In the meantime, the securities representing common stock investment are also drawing the same rate. About eight per cent is therefore available for common stock at a time when half that is considered a fair return for senior securities. This dividend is obtained with no more effort than a careful examination of purchased securities, and with no more risk than is entailed in buying any high-grade foreign issue.

The practice is to issue share certificates which are converted into preferred and ordinary stock when fully paid. If the share is of £10 value, it may be split into £6 of cumulative preference stock and £4 of ordinary stock. This also holds true when a company is expanding its share capital, or offering the unissued portion to its stockholders. The

¹ See also analysis of earnings and dividends of the First and Second Edinburgh Investment Trusts. Chapter XIII.

² The ratio of debentures to total outstanding share capital often reached 100%, while fully 75% was frequently found.

return on the common stock depends, of course, upon the ratio between preferred and ordinary when the shares are converted. To illustrate this, let us take a trust originally issuing shares and debentures in the proportion of fifty-fifty. By purchasing at special issue prices or when the markets are favorable, the company spreads its investments on a seven per cent basis. After paying four per cent to debenture holders, ten per cent would remain for shareholders. Now if the shares represented merely common stock, the latter percentage would be the maximum dividend which could be paid. Assuming that the shares have been divided into preferred and ordinary on a fifty-fifty basis, and that the preferred dividend is five per cent, there remains the equivalent of fifteen per cent out of which common dividends may be paid. And so on. The better known a company is the more readily it may issue debentures and preferred stock, thereby increasing the share of earnings distributable to its common stockholders.

These illustrations do not take into account the administrative costs and the possibilities of capital depreciation. But on the other hand, they do not allow for such incidental profits as are discussed below. As a matter of practice no investment trust distributes its full earnings, as a considerable reserve fund must be maintained.

Common stock, while generally of one type, is occasionally divided into ordinary "preferred" and ordinary "deferred". The difference between the two types is generally that the "preferred ordinary" is entitled to a dividend somewhat higher than that offered the preference stock, payable as a second lien on profits. It is not cumulative, like the preference stock, or participating to the same extent as the "deferred ordinary". The most important distinction is the lien which each type of stock has on the company's equity in the event of winding-up. The order of

precedence, after debenture holders are satisfied, would be preferred, preferred ordinary, and deferred ordinary.¹ Par value of every kind of stock is usually low enough to attract the most humble investor, and generally stands at from £1 to £5. It will be recalled that over thirty per cent of the outstanding capital of investment trusts is raised from common stock of all kinds, the proportion being smaller in 1912.

B. Preferred Stock

(a) Ratio

The ratio of preferred to ordinary stock is generally sixty to forty or fifty to fifty. Certain companies specify that preferred stock shall not exceed sixty per cent of the total issued share capital.² This restriction is in keeping with the conservative management typical of most investment trusts, which are loath to accumulate fixed charges when costs of capital are higher than they have been accustomed to in earlier days.

(b) Earnings and Status

Preferred stock is generally cumulative, non-participating, and entitled to priority in event of winding up. There are exceptions in each case. Thus several companies specify that the minimum rate on preferred shall be four per cent,

¹ One company issues preference shares entitled to a cumulative dividend of 6% and to priority for capital without further participation. Preferred ordinary is next entitled to a non-cumulative dividend of 7% and to priority for capital over deferred ordinary shares, but without further participation.

² The American Trust Company; The Anglo-American Debenture Corporation; The Scottish and Dominions Trust; The Second Scottish Northern Investment Trust and others. The United States and South American Investment Trust Company declares that it shall not exceed fifty per cent of the total issued capital.

and that under certain conditions there shall be further participation not to exceed five per cent in all.¹

Rates vary from four to five and a half per cent. Each one of the companies paying from four to four and a quarter per cent was organized by the mid-Nineties. About thirty companies pay four and a half per cent; and five per cent is offered by a small number. The majority of the former were incorporated in the late 'Eighties, and the tendency is noticeable to pay higher rates since 1900. Six per cent is rarely found among investment trusts, although some financing companies pay it. Several companies have more than one issue of preferred stock, bearing different rates of dividend. By reference to the tables of Section B, the relative importance of preferred stock can be seen for the years 1912 and 1921.

II. DEBENTURE CAPITAL, AND OTHER FORMS OF BORROWING

A. Limitation of Borrowing Powers

In turning to the borrowings of investment trusts the first thing to note is that the limitations are imposed by the Articles of Association rather than the Companies Acts. The latter impose no restrictions as to amount, provided the power to borrow is embodied in the constitution of the company. This is, of course, always the case with investment trusts.

B. Types of Borrowing

For the most part, borrowing by investment trusts takes the form of issuing debentures. Participating certificates and collateral trust stock rarely, if ever, appear. Deposits are not received. Bank overdrafts were more common before the war than now; and although they occasionally figure in present balance-sheets, the tendency in the stricter

¹ This is true of such companies as The British Investment Trust, The American Trust Company, and the Merchants Trust Company, Ltd.

form of investing company has been to reduce such accommodation to the minimum. An examination of the printed balance-sheets of several of the more important companies shows no bank loans outstanding. While it is always possible that "windowdressing" may reduce such liabilities at stated times, the insignificant interest payments on bank loans recorded in the Profit and Loss accounts prove that overdrafts and collateral loans are usually small in comparison with capital, temporary in character, and often merely in anticipation of early maturities.

As it only underwrites issues it is prepared to purchase,¹ does not act as promoting company, or depend for its revenue upon interest from short-time loans, the trust company finds bank-borrowing, except on occasion, an unsatisfactory form of financing. Unlike the discount house, it is not prepared to operate in the bill market on slender margins. The debenture is a type of borrowing consistent with the longer-dated maturities comprising the bulk of its portfolio; and the investment trust is able to reap substantial profits on the difference between the cost of its funded loans and the return on its permanent investments.

C. Nature of the Debenture

The following definition in Palmer's "Company Law" describes the instrument used by trust companies:

The term debenture stock in common parlance is used to describe a debt owing by the company, payable at a fixed date, or in the event of the winding-up, or some other contingency, and in the meantime carrying interest at a specified rate, and secured usually by a trust deed on the property of the company. The debt is generally made payable to trustees, and the beneficial interest thereof is represented by certificates held by the debenture stock holders.²

¹ See Chapter XI.

² "Company Law," by Sir Francis B. Palmer, Eleventh Edition, 1921, London, page 294.

The advantage of the debenture¹ as against the collateral trust bond is that the former leaves custody and disposition of the underlying security with the issuing company. A debenture charge is a prior claim, but a "floating" one. As long as the trust is a going concern, it may change its investments, provided the interests of the debenture holders are adequately protected.

In event of insolvency, the "floating charge" enables the receiver for the debenture owners to hold the assets as against the general creditors. As is frequently assumed in the United States, the debenture is therefore not unsecured. While the "floating charge" is technically unknown in our jurisprudence, it would doubtless be easy enough to draft trust deeds compassing the same end, namely, assuring equal security with that enjoyed by the American collateral trust bond, and avoiding the immobility of assets entailed in the specific lien of the latter.²

The "debenture stock trustees", which are provided by about half the investment trusts, seem of more psychological than economic importance. It is difficult to see what extra assurance such trusteeship gives the debenture holders,³ and

¹ The term "debenture" is ordinarily used in England in the place of "bond."

² Debentures of British investment trusts enjoy the fullest confidence of the investing public, and are in such general esteem that they are not easy to acquire. A recent issue of the United States and General Trust Company has been completely absorbed (1923) on a 5% basis—a net yield no greater than that of several British Government issues at the time.

It is interesting to note that there are differences between the English and Scottish law in connection with the technical nature of the debenture lien—but in practice these differences are unimportant.

³ Palmer (*ibid.*) see page 336. "Where there is a trust deed, whether for securing debentures or debenture stock, the trustees can be plaintiffs in an action for enforcing the charge; but, commonly, the action is brought by a holder of the debentures or debenture stock, and the company and its trustees are made defendants."

there is no marked difference in the saleability of debenture stock issued with and without the special trust deed. The debentures are usually secured by trust deed, deed poll, or indenture, although there are at least fifteen companies which make no special agreement. In nearly every case the debenture stock is a "floating charge on all the undertaking and property", although in a few instances it is doubly secured and resembles the collateral trust bond.¹ *

Debenture stock may be of long or short maturity. When rates payable on permanent investments were lower, perpetual debentures² and those of distant maturity were much in vogue. The advantage of obtaining funds for long periods appears subsequently with the general rise in interest rates, and has given the older trusts a *time* as well as *place* margin in the employment of their capital. Adapting their offers to prevailing conditions, many trusts have several series of debentures, issued at different times and paying different rates of interest.

The terminable debenture is general in Scotland. Loans with fixed and early maturity protect the lender from depreciation of his capital, and appeal to the cautious investor north of the Tweed. Furthermore, trustees desire to guard their funds until the beneficiary attains his majority, when the capital should be free for such disposition as the latter may wish to make. During recent years the terminable debenture has enabled trusts to obtain capital under conditions permitting refunding at more favorable terms. This is not an unmixed advantage, however, as the re-funding

¹ For instance, The Debenture Corporation Limited, and the South African and General Investment Trust Company (which are in part investment trusts) issue debentures secured by trust deeds, as a fixed charge on deposited securities of a value greater than the debentures by at least ten per cent; and also by a floating charge on the undertaking and assets.

* These are occasionally redeemable at the option of the company.

may have to be carried out at a time when interest rates are higher, and the lack of permanent capital deprives an investment trust of the stability of net income characteristic of the older and more successful companies. A prominent Glasgow firm has recently intimated that the cost of capital is probably as low now as it will be for many years, and that it is their desire to throw a larger proportion of their debenture stock into a long maturity. There are great differences between Scottish trusts in this respect.¹

D. Amount of Debentures Issued

Debenture stock is ordinarily limited, in the Articles of Association, to an amount not exceeding the outstanding share capital. If borrowings were heavier, there would be difficulty in obtaining stock exchange listing, and underwriters and investors would look askance at the company. Some companies, as the Foreign American and General Investment Trust, limit their borrowings to one-third of the fully-paid capital, others to forty, fifty, seventy-five, and eighty per cent. Fifty per cent is a common limitation.²

¹For instance, the Alliance Trust Co. of Dundee has its capital in terminable Debentures to a greater extent than several companies managed by Brown, Fleming & Murray of Glasgow.,

²The following companies are among those limiting debentures to fifty per cent of their subscribed capital; the Army and Navy Investment Trust Company, the General and Commercial Investment Trust. The Anglo-American Debenture Corporation has an eighty per cent limitation, and the London and New York Investment Corporation limits its debentures to seventy-five per cent.

The "Debenture Securities Investment Company" has this interesting section in its Memorandum of Association:

- "(1) The Company is not to be at liberty to borrow or raise money by the issue of debentures or debenture stock, constituting a floating charge on the Company's undertaking and property, without the sanction in writing of the holders of ninety per cent of the issued capital of the company, and so that—
- "(2) The total amount at any time owing in respect of money borrowed, or raised, shall not, without the like sanction, exceed thirty per cent of the issued capital."

War experience has amply confirmed the wisdom of these restrictions.

It is significant that although the average capital of investment trusts¹ has grown by one hundred thousand sterling since 1912, there has been practically no increase in the average debentures. The principal expansion is, as might be expected, in common stock, which carries seventy per cent of the increase. Assuming the amount of the outstanding share capital to be a safe limit for debentures, it appears, therefore, that investment trusts may conservatively expand their borrowings a full hundred per cent, or, roughly speaking, by thirty million sterling. This amounts to one-third of their total capitalization and would greatly enhance their investing power. In arriving at an estimate of their power of expansion without altering present Articles of Association, we must also consider the uncalled capital, and that which has been authorized but not issued.

¹ Section B of Appendix IV.

CHAPTER XI

EARNINGS

THE Investment Trust derives its income from at least five different sources, of which the first in the following list is by far the most important. These sources are (a) the return on its interest and dividend-bearing securities; (b) fees for trustee, secretarial and registration services; (c) underwriting fees; (d) premiums from the issue of share or debenture capital above par, and (e) profits from the sale of its holdings.

(a) The difference between the cost of its capital and the return on its loans has always been the chief source of an investment trust's net income. Its revenue account, therefore, is reasonably independent of the effect of capricious interest changes, or temporary industrial derangement—the former because most of its capital is obtained for several years at a fixed rate, and the latter because the majority of its holdings are in preferred stocks or bonds. There is of course no exact relation between the market value of a trust's investments and its own income from them. Foreign exchange is an important factor in interest and dividends as well as original investment. It may occur that larger dividends from common stock of foreign undertakings are partly cancelled by the weakening of exchange on the country concerned, which follows a period of price inflation, and *vice versa*.

(b) Investment trusts often act as trustees for debenture holders of other companies, and render miscellaneous services classed under trust company powers in America.

It is not customary, however, for them to accept trusteeships for private estates.

(c) and (d) From underwriting fees, miscellaneous services, and the issuance of stock above par; investment trusts occasionally meet all office and general expenses. The latter is, of course, an irregular source of income not enjoyed by all trusts, and where not credited to reserve may be used to defray the printing and other expenses connected with the new issue. Unless underwriting profits are realized they are not written into distributable income. For instance, if a company is required to take up a part of its quota, or if it chooses to enter a public subscription, the price which it pays is less than the published rate by the amount of its underwriting margin. In this case, however, the book profit is not credited to current income, but when the securities are sold again the net profit (if there is any) is treated in the same way as all profits on realizations.¹

(e) The sale of its securities, when the market for them has ripened, is the legitimate reward of a patient nursing process.² Oscillations of interest rates and changes in dividends may open profitable opportunities to realize on some of its varied holdings, while, if values are depreciated, the trust generally has little to lose by waiting. Where, as so often happens, securities can be sold after their probationary period in the market where the industry is domiciled, exchange may be the deciding factor.

EARNINGS DURING RECENT YEARS

The analysis of earnings is based upon a comparative study of the fifty-five investment trusts starred in the list of Section A. They are a thoroughly representative assortment.

¹ Chapter XII.

² Profits on realization are not distributed as dividends. See Chapter XII

a. Dividends on Ordinary Stock

The following investment trusts declared an average annual dividend of ten per cent or over during the entire period from 1912 to 1921 inclusive. Those starred have been conspicuously successful (fifteen per cent or over).

The Alliance Trust Company *
 The British Investment Trust
 Consolidated Trust
 Edinburgh Investment Trust *
 Industrial and General Trust
 Investment Trust Corporation
 Metropolitan Trust Company
 River Plate and General Investment Trust Company
 United States Debenture Corporation

The following companies have enjoyed dividends averaging from eight to ten per cent during the same period:

American Investment and General Trust Company
 Army & Navy Investment Trust Company
 Government & General Investment Company
 Indian and General Investment Trust
 Merchants Trust
 Second Scottish Investment Trust Company

The following companies have paid dividends of at least seven per cent since the war, although their earnings during the war and before it were less. The companies starred have had remarkable profits since the war.

Alliance Investment Company
 Brewery and Commercial Investment Trust *
 Caledonian Trust Company
 Debenture Securities Company
 General and Commercial Investment Trust
 General Investors and Trustees.

London and Colonial Investment Corporation
 London and New York Investment Corporation
 London and South American Investment Trust
 London Trust Company
 New Investment Company
 Third Edinburgh Investment Trust *
 Trust Union
 United States and General Trust Corporation
 United States and South American Investment Trust
 Company

Thus it appears that fully one-quarter of the investment trusts have been remarkably successful. Of the fifty-five in question, only a half dozen or so fell below six per cent in 1921—their average dividend for the year being four per cent. These same companies have failed to pay an average of five per cent during the ten-year period 1912 to 1921 and they are the only ones among the fifty-five which have thus failed. They are:

American Trust Company
 British & Foreign General Securities & Investment Trust*
 Charter Trust and Agency *
 International Investment Trust
 Railway Share Trust and Agency
 Rock Investment Company *
 Second Industrial Trust ¹

Those starred have been particularly hard hit during and since the war.

In checking over the comparatively unsuccessful companies, it is not easy to point out any common cause of failure. A number of trusts have suffered heavily because of the ambitious program of their early directors who strayed far from sound investment policies. A few ex-

¹ Formed in 1911.

amples of abuse are cited in Chapter XIV. In a number of instances the writing down of the share capital has placed the company upon a firm basis. The Metropolitan Trust, which figures in the first list of successful companies, is a reorganization of an earlier failure. Companies departing from the practice of widely distributing their risks have now and again been hard hit by depression in certain industries—as in mines, iron and steel, and rubber. The increasing interest of investment trusts in home industries (see Chapter XIV) makes them more sensitive to the business disturbances of a highly industrialized community. Holdings of Russian bonds have somewhat embarrassed several trusts, and in one or two cases proved fatal to companies organized to specialize in them. For instance, the Scottish and Foreign Trust goes through the formality of annual meetings but reckons its assets a dead loss. However, comparative success or the reverse cannot be explained by reference to any particular area or industry. High dividends result from the skilful and yet cautious management which characterizes the companies of cosmopolitan interest. By referring to the analysis below of the earning of the Edinburgh Trusts it will be seen that highest dividends often result from the most conservative direction.

The average dividends of the fifty-five companies were over seven per cent in the period 1912 to 1914 inclusive; six and one-half per cent during the war period; and over eight per cent in the three-year period immediately following the war. Nearly all of the unusually successful companies (those earning 10% or over) have an outstanding share and debenture capital of well over one million pounds, and were organized in the late 'Eighties. Conversely, practically every large company formed in this earlier period of trust activity has more than justified the efforts of its founders. This suggests the soundness of the general principle underlying investment trusts.

The remarkable showing made by the trusts as a whole is particularly gratifying during the war period. Although business had its ups and downs, most of the companies combining a wise assortment of fixed interest-bearing and dividend-paying securities came through without a tremor. While dividends on ordinary stock were soaring for companies active in war industries, mounting interest rates brought down the values of bonds and preferred stock; but the trusts profited from the former without losing much because of the latter. The slight decrease in average dividends during the years 1915-1918 indicates losses of return from securities of certain industries embarrassed by the war, further deductions from income to write off depreciation in holdings, and the sale of desirable securities at even sacrifice prices to participate in war loans. The rates of dividend since the Armistice have been even higher, as a whole, than before August, 1914; and the position of the trusts is to-day so strong that it is difficult to purchase stock of the well-known companies in the open market.

Dividends are at best a crude criterion for comparing companies, and they tell very little about the gains which the original investors have enjoyed. For them the important consideration is the actual cash paid for each share of stock. A ten pound share may represent fifteen or twenty pounds if reorganization has followed an earlier failure; or it may represent less than ten pounds if the company has issued bonus shares. When reserve and earnings warrant it a company may increase its ordinary stock by a liberal bonus on the principle that two shares paying a certain rate of dividend are worth more than double one paying twice that rate. Furthermore, the underlying value of stock is as much a matter of equity in case of winding-up as of current dividends. Though principles of accounting are quite uniform, some trusts are more conservative than others in

distributing net income, capitalizing reserves and allowing for depreciation in investments.¹

b. Values of Securities issued by Investment Trusts

As the trusts have faithfully met interest on their debentures, and the claims of preferred stock, the values of these securities have not had a different course than for any other similar high-grade investments. In general, the fixed-interest-bearing issues reached high mark before the war, and have quite uniformly fallen in value to the time of the recent up-turn which accompanied the easing of money rates. They have long been below par because of the heavy income tax.

Ordinary stock of investment trusts generally reached the low point some time in the period 1915-1918, and has been climbing since. For a number of very successful trusts the bottom was reached in 1920 or 1921. The high mark is generally before the war—a circumstance largely due to the income tax. Despite the tax, however, the lowest quotation during the war for the ordinary stock of at least twenty trusts did not go below eighty on a par value of a hundred, and in the case of ten companies the low was well over a hundred.

In estimating the intrinsic, or "break-up", value of its ordinary stock, there must be periodic valuations of a trust's investments. Although stock exchange quotations for its holdings are of minor importance provided interest and dividends continue, much attention is given to the state of the "capital account". Valuations are made annually at current prices, or, where a security is not commonly dealt in, at a conservative figure. Unfortunately, these figures are not always disclosed even at annual meetings and it is

¹ See Chapter XII. Robert Fleming & Company discourage the capitalization of reserves by issues of bonus stock.

impossible to arrive at any general estimates in consequence. The balance-sheet gives "investments at cost or less", but, as is shown below, tells nothing of the current value of the company's assets.

It is safe to say that the value of trust companies' holdings shrunk somewhat during the war and the first two post-war years. Directors generally report an encouraging recovery¹ in the annual meeting of 1922, and it is probable that the great majority of companies have unimpaired capital at present.

The following is an interesting estimate of the "break-up" value of the deferred stock of twenty selected investment trusts, which appeared in the June 22, 1922, number of the *Stock Exchange Gazette*:

¹The Industrial and General; Investment Trust Company; Indian and General Investment Trust; Merchants Trust; United States and South American Investment Co.; Railway Debenture and General Trust; and others.

Title of Trust Company	Reserves and amount carried forward	Date of last balance sheet	Approximate valuation ordinary stock ex. div.
	£		£
Alliance Trust Company	1,071,100	1, 31, 1922	314
American Investment and General Trust Company	352,800	3, 15, 1922	112
Army and Navy Investment Trust	236,000	11, 30, 1922	100
Bankers' Investment Trust	123,200	4, 30, 1922	100
British Investment Trust	1,204,800	1, 1, 1922	175
British Steamship Investment Trust	678,700	6, 30, 1922	137
Edinburgh Investment Trust	164,900	3, 15, 1922	126
Foreign, American and General	170,700	3, 15, 1922	*
Foreign and Colonial Investment Company	735,400	1, 10, 1922	*
General and Commercial Investment Trust	128,700	2, 28, 1922	...
Guardian Investment Trust Company	10,000	1, 20, 1922	...
Industrial and General Trust	576,800	3, 31, 1922	161
International Investment Trust	11,200	1, 31, 1922	...
Investment Trust Corporation	800,000	5, 1, 1922	204
London Trust Company	270,400	3, 31, 1922	*
Mercantile Investment and General Trust Company	454,800	1, 31, 1922	*
Merchants Trust	352,100	1, 31, 1922	...
Metropolitan Investment Trust Company	491,200	1, 1, 1922	150
Second Industrial Trust	11,900	6, 15, 1922	57
United States and South American Investment Trust Company	73,100	4, 4, 1922	†

*Under par.

†Over par.

Although the above list is fragmentary, most of the companies cited earlier as conspicuously successful are shown on it as affording a large margin above par in the "approximate valuation" of ordinary stock. In other words, even the largest dividends have been paid at a time when reserves were accumulating to improve the capital account.

CHAPTER XII

ACCOUNTING METHODS OF INVESTMENT TRUSTS

THERE are a number of important differences between investment trusts and financing companies¹ in their methods of determining net income, computing payments due under the corporation profits tax and maintaining unimpaired capital. Legal doctrine and business practice treat the former as dealing in investments, and the latter in money. The following variations in practice will make this clear.

A. For a quarter of a century it has been recognized in England that an investment trust may pay dividends even though the value of its investments is dwindling.

The sanction for this is found in what are known as the *Lee v. Neuchatel* series of decisions of the earlier Court of Appeal (Supreme Court of Judicature²). The *Verner v. General Commercial Trust* ("General and Commercial Investment Trust Ltd.") case arose from the friendly action of a stockholder who wished to ascertain whether an investment trust could continue to pay dividends when the

¹ See distinction in Chapter VIII.

² These decisions are *Lee v. Neuchatel Co.*, 41 C. D. 1; *Verner v. General Commercial Trust* (1894) 2 Ch. 268; and *Wilmer v. Macnamara*, (1895) 1 Ch. 245. These cases all deal with dividends payable at a time of depreciating capital, and interpret the requirements of the Companies Acts with respect to distributable revenue. Although somewhat discredited in the tone of later decisions, they have never been definitely reversed in appeal to the House of Lords. Their significance for investment trusts is most clearly seen in the *Verner Case*, in which the defendant is a trust company. The principles enunciated were not intended purely for investment trusts, however.

investments in which its share capital was sunk showed depreciation below the par value of the stock. The Lord Justices affirmed an earlier decision that dividends could be paid out of returns from a trust's investments even though the capital account showed impairment. This case was of the greatest importance at a time when securities were so heavily depreciated, and permitted many companies whose investments were intrinsically sound to keep up a steadier rate of dividend.

The legal subtleties upon which this decision was based are not easy to follow. In stating the above doctrine the Lord Justices were equally emphatic that dividends must not be paid out of borrowed money, or "capital". "Capital" they define as the funds put into the company by the preferred and ordinary stockholders:

The broad question raised is whether a limited company which has lost part of its capital can lawfully declare or pay a dividend without first making good the capital which has been lost? I have no doubt it can; that is to say, there is no law which prevents it in all cases and under all circumstances. But the provisions as to capital when carefully studied are wholly inconsistent with the return of capital to the shareholders whether in the shape of dividends or otherwise, except of course on a winding-up. . . . The main condition of limited liability is that the capital of a limited company shall be applied for the purposes for which the company is formed, and that to return the capital of the shareholders either in the shape of dividend or otherwise is not such a purpose as the Legislature contemplated.

But there is a vast difference between paying dividends out of capital and paying dividends out of other money belonging to the company and which is not part of the capital mentioned in the company's Memorandum of Association. . . . The capital of a company is intended for use in some trade or business and is necessarily exposed to risk of loss. . . . If, therefore, the company has any assets which are not its capital within

the meaning of the Companies Acts there is no law which prohibits the division of such assets amongst the shareholders.

A further distinction reaches the heart of the matter for the investment trusts. Dividends must be paid out of "profits". Profits mean an excess of income in the ordinary course of a company's business over the outlay required for such income. A company's "circulating capital"¹ is continually being used up in its daily profit-getting, and unless it is fully maintained there are no "profits". Therefore, although loss or depreciation of "fixed" capital need not affect the profits, loss or depreciation of "circulating" capital must be taken into account.²

Now the Court finds that the Articles of Association of the investment trust "are so framed as to authorize the sinking of capital in . . . stocks, funds, securities and the payment of dividends out of whatever interest, dividends or other income such stock, funds and securities yield. . . ." It is not a company "formed for the purpose of buying stocks, shares and the like to sell again";³ and its business is not primarily "to make profits on such

¹ Circulating capital in this sense has been defined by Palmer (*ibid.*) p. 221, 23—"Capital which performs its whole office in the production in which it is engaged by a single use, *e. g.*, the goods which the merchant has for sale, . . . the horses of a horse dealer, etc."

² The ridiculous distinctions to which such a doctrine, if rigidly applied, might lead may be illustrated in the case of a mine, which has been purchased by shareholders' money. In taking out coal its veins are being rapidly exhausted, but no depreciation fund need be maintained. Dividends cannot be distributed, however, without full allowance for fuel used up in drilling, tools worn out by use, etc. It is a question whether we would class engines, tracks, etc., in this case as "fixed" or "circulating" capital.

British Companies generally ascertain their profits by strict business methods and do not take advantage of the power which these decisions would seem to give them to "inflate profits at the expense of capital."

³ Opinion of Lord Justice Kay in the Verner case.

re-sale".¹ The investment trusts "buy stock shares and the like and they have power to sell and change them. But they buy as investments and do not look to the sale as the source of their profit".¹ In the above is found a clear separation of the investment trust and the financing company. The investments held by the former are virtually its "fixed capital". The investments held by the latter are its "circulating" capital. In fixing its dividend the investment trust is not compelled to allow for depreciation in the value of its holdings; but in calculating its profits the financing company, like any ordinary trader, should take a yearly account of all the capital employed in its business, allow for loss or depreciation, and carry the balance to the profit and loss account. Upon examining the balance-sheets and profit and loss accounts of financing companies it will be seen that there is an annual valuation of investments and other properties, that this valuation generally appears in the published balance-sheets, and that dividends are only paid when capital is intact.

This distinction was of importance in the lean days following the Baring crash, and led several financing companies which had fallen upon evil times to amend their Articles of Association to those of an investment trust. However, it is interesting to-day primarily as indicative of the different scope of activity adopted by each type of company and it does not deprive financing companies of any liberties which a well-ordered investment trust generally takes. As a matter of practice, companies of the latter type keep liberal reserves, or voluntarily write depreciation off current income. Few of them would declare large dividends if capital were greatly impaired.

The economic principle underlying the earlier decisions was probably the fact that an investment trust, unlike a

¹ Opinion of Lord Justice Kay in the Verner case.

bank, an insurance company or a trading, financing and promoting company, is not subject to irregular or uncertain demands. It can anticipate the time when its borrowings must be refunded, and it is certain of solvency as long as dividends and interest accrue from its holdings. In fact, the value of investments and the income derived from them often diverge, as earnings depend upon the year's trading profits and stock exchange quotations look to the future.

B. Investment trusts never distribute as dividends any profits realized on the sale of their investments. These profits go into a reserve account or are immediately used to write off depreciated securities. In the Articles of Association a condition of this kind frequently appears, but whether expressly provided for or not, it is always followed. This is in spite of the fact that the Courts permit accretions of capital, when realized, to be brought into the profit and loss account and dealt with accordingly. The reasons for this practice are the desire to accumulate reserves which will steady the capital account and leave income free for distribution; and certain taxation arrangements discussed below.¹

¹ The following is quoted from the 1922 annual meeting of the Merchants Trust:

"Chairman: There was a change made recently in the accounts, following the practice of the other Trust Companies—those which we regard as the best. The difference of Profit and Loss sales of investments is now placed to a contingency account, the balance of which is deducted from "Investments at or under cost" as shown in the Balance Sheet. The difference was about £5,000.

"Mr. W. Mitchell: Is that included in the Profit, sir?"

"The Chairman: Oh, no. It is a Capital Reserve; it is placed to a contingency account. It performs the valuable function that if you make a loss you have a reserve, against which you can charge it. An Investment Trust Company, unless it had such a reserve, would have a figure in its Balance Sheet—"Loss on realizations"—which might affect the nerves of some people. I do not think it ought to, but a contingency account avoids that."

Financing companies always treat gains on realization as a source of revenue. They are lumped with interest and dividends in the current account out of which reserves are built and profits paid.

The foregoing can best be illustrated by giving two or three typical "profit and loss" accounts. The first is for the British Empire Trust Company, a financing concern whose revenue is derived "mainly from the following sources: (1) Interest and dividends from investments; (2) Trusteeships, Registrarships and Secretaryships; (3) Carrying on the business of an industrial bank; arranging the finance of industrial undertakings; underwriting and issuing new capital."

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED APRIL 30, 1922

<i>Dr.</i>	£	s.	d.		£	s.	d.	<i>Cr.</i>
To General Expenses, including investigations of new business and administration	17,442.	17.	5	By Trusteeships', Registrarships' and Secretaryships' fees	15,782.	0.	6	
To Directors' Fees ..	1,600.	0.	0	By Interest and Dividends on Investments or Interest on Loans	68,889.	19.	2	
To Audit Fees	525.	19.	0	By Adjustments of Reserve for Depreciation of Investments after valuing Investments now held at Lowest Market Values at 30th April, 1922; Commissions earned, etc.	16,071.	12.	1	
To cost of removing to and fitting up new offices	3,416.	0.	11					
To Income Tax Reserve	4,468.	0.	0					
To Corporation Profits Tax Reserve ...	1,822.	0.	0					
To Balance, being profit for the year ended 30th April, 1922, carried down	71,468.	14.	5					
	<u>£100,743.</u>	<u>11.</u>	<u>9</u>		<u>£100,743.</u>	<u>11.</u>	<u>9</u>	

Industrial conditions not being favorable, the earnings of

the British Empire Trust Company for 1921-22 have been mainly from fees, and interest on loans and investments. The third item on the credit side shows that the Company considers itself obligated to maintain the capital account on the one part, but free to regard surplus reserve as current revenue on the other.

The next account and balance-sheet are for a typical smaller financing company:

NATIONAL AND FOREIGN SECURITIES TRUST, LIMITED

BALANCE SHEET 31ST AUGUST 1921

Capital and Liabilities

	£	s.	d.
Issued Capital	62,415.	0.	0
Debenture Stock	32,080.	0.	0
Creditors, including accrued interest on Debenture Stock	924.	12.	10
Investment Reserve Account	6,000.	0.	0
Profit and Loss Account	4,519.	5.	6
	<hr/>		
	£105,938.	16.	4

Assets

	£	s.	d.
Investments in Stocks & Shares at cost or under	91,594.	12.	1

A valuation of the Investments' closing prices of the 31st August 1921, shows in the aggregate a depreciation of £5,777 against which there is an Investment Reserve of £6,000

£105,938. 16. 4

NATIONAL AND FOREIGN SECURITIES TRUST, LIMITED

Dr.		PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST AUGUST 1921		Cr.		
	£	s.	d.	£	s.	d.
To General Expenses, including Office Rent, Directors' Fees, Secretary's Salary, Audit and Sundry Charges ..	1,958.	5.	8	By Dividends & Interest, Profit on Sales of Shares, etc.	8,037.	12. 8
To Discount on Debenture Stock Issue	300.	0.	0	By Registration Fees ...	1.	17. 0
To Balance carried down	5,781.	4.	0			
	<hr/>				<hr/>	
	£8,039.	9.	8		£8,039.	9. 8

The last revenue account is for a typical investment trust :

THE SECOND EDINBURGH INVESTMENT TRUST LIMITED. REVENUE ACCOUNT
FROM 30TH SEPTEMBER 1920 TO 30TH SEPTEMBER 1921

	£	s.	d.		£	s.
Debenture Stock Interest paid and accrued				Interest, Dividends, etc. less Income Tax	62,049.	4
—less Income Tax ..	12,600.	0.	0	Profit on Realizations, etc.	£722.	9. 10
Management Expenses	4,750.	0.	0	Applied:		
Auditor's Fee	78.	15.	0	In payment of expenses in respect of new capital issued .	£61.	6. 9
Net revenue for year, carried to Appropriation account	44,620.	9.	8	In reduction of cost of Investments .	661.	3. 1
	<hr/>				£722.	9. 10
	£62,049.	4.	8		<hr/>	£62,049. 4

In both cases there appears "profit on realizations".
The Second Edinburgh merely shows this item here to give

a complete record of income. It is at once ear-marked for "reduction of cost of investments" and does not really enter the account. In many annual reports no mention is made of capital profits among the profit and loss items.

By means of these profits, plus any deductions from net income for the purpose, the visible, and "invisible" or "inner" reserves of the investment trusts are built up. If funds are appropriated to the "visible" reserve, the "reserve" item on the debit side of the balance-sheet is increased by the proper amount, and the cost of securities in which the appropriated funds are invested is added to the "Investments at cost or under" item on the credit side. If they are added to the "invisible" reserve, the balance-sheet shows no changes. In this case, technically, the funds have been used "to write down the cost of investments". That is, although the company's holdings have been strengthened to that extent, the investments remain at the same figure in the balance-sheet. This figure really represents the *net* cost to the company of all the securities it holds and, unlike the figures of a financing company's account, has no relation whatever to market value.

The result of using capital profits "to write down cost of investments" is that more generally than not a successful investment trust's annual valuation of its holdings will show a large margin above the balance-sheet figure. It is this margin which constitutes its "inner reserve". Stock exchange values may tumble until this inner reserve is more than used up but no note need be taken of it in the balance-sheet. In such a case the visible reserve is generally a further element of safety. If values are buoyant, the trust may transfer from its "invisible" to its "visible" reserve—or in other words, add to the reserve figure on the debit side, and consequently mark up its "investments" total. Further appreciation in its securities may lead to the dis-

tribution of bonus stock, and the corresponding reduction of reserve and addition to "issued capital". It is in this way that profits on realizations are occasionally "distributed". As the dividend rate is adjusted to the greater volume of outstanding stock, the recipient of the bonus shares gains little advantage, except from the higher selling price of his larger holding, unless a more liberal policy in distributing income is adopted at the same time.

C. The Inland Revenue Authorities of England permit investment trusts to deduct profit on realizations from their taxable income. The financing companies must pay on their entire revenue inclusive of such profits.

The Scottish authorities differ in their application of the same Income, and Corporation Profits taxes. In this respect the Scottish practice is akin to the American in that capital accretions are taxed as income. Differences of opinion exist among investment trust executives of Scotland and England as to the advantages of each system. The English exemption was sponsored by the trusts at a time when values were rising and profits on sales considerable. As capital losses cannot be deducted from taxable income if capital profits are exempt, the taxes payable by English companies have been greater than they otherwise would have been during the recent years when securities were heavily depreciated, and holdings were often sold at a loss to aid war finance.

The Scottish trusts are, of course, permitted to deduct losses, and have derived advantage therefrom during and since the war. Losses must be realized to be deducted, and some companies north of the Tweed have been known to sell depreciated securities before making up their returns, and to buy them back shortly after.

Whether in the long run the English investment trusts gain from this is open to question. If accretions to capital

were distributed as dividends they would of course be taxed, and this is perhaps the chief reason why they are always shunted to reserve. Scottish companies, however, find it to their advantage to follow the same practice. The writer is informed by a prominent firm of Glasgow attorneys that the Scottish Revenue authorities have offered their companies the same treatment, but that this offer has been refused. Certain English companies have recently appealed for the right to deduct losses, but the authorities have held them to the original agreement.

As the income tax paid by British corporations is passed on to owners of their loan and share capital¹ in so far as their income is available to holders of these, the domestic charge bearing most heavily upon them is the corporation profits tax. The burden of the latter, with the income tax on such part of the net revenue as is put into reserve, falls upon the company itself, and has made the accumulation of reserves a slower process than heretofore.

Several other circumstances have added to the investment trust's tax problems. Some of their debenture and preference shares have been sold with a tax-free covenant. At the time, a rate of only one shilling or so on the pound was contemplated. Although the income tax rose to six shillings and has but lately fallen to five, the interest and stipulated dividends have not been changed. A Scottish trust, in referring to this, has recently complained of the different treatment accorded them on the American "tax free" bonds in their portfolio. Reverting to the corporation profits tax, it might be said that investment trusts sought to escape this special levy on limited companies by arguing that they were merely conduits for capital. It has been decided that they need not pay the tax on dividends from

¹ The British Income Tax has the most thorough system in existence of collection at source.

companies already subject to it. It happens that railways and public utilities have been exempted for a number of years, and as trusts have heavy interests in these and Government bonds, the corporation profits tax bears heavily upon them.¹

Taxation is a factor of the greatest importance in the shifting of investments from the United States to other countries or to domestic issues. On numerous occasions investment trust secretaries have complained to the writer of the uncertainties, delays, and apparent working at cross purposes of American income tax administration. It is stated that when assessments are on appeal, letters are received threatening seizure in lieu of immediate payment, and that final adjustments are not yet made for all earlier post-war years. There is more dissatisfaction with what they term a cumbersome machinery than with the rate itself. Domestic investments are not subject to double taxation; and the degree of reciprocity worked out with the Dominions in income tax matters is an incentive to invest there. Were the United States a borrowing country, serious attention should be given to removing artificial obstacles of this kind, in order that our industries might compete for foreign capital on equal terms with those in countries of lower rate or simpler procedure.

¹ A good bird's-eye view of British taxation may be gained from Tolley's Chart (1922-23).

CHAPTER XIII

SOME TYPICAL INVESTMENT TRUSTS

AN understanding of an investment trust as a going concern can best be gained by examining its accounts over a period of years. Let us choose for this purpose the Edinburgh Investment Trust, and the Second Edinburgh; and segregate certain items of significance throughout the life of each.¹

Column (1) of the table below shows the net revenue from interest and dividends, after all administrative expenses have been deducted, and the debenture and preferred stockholders paid. Column (2) gives the amount of this available fund which has actually been distributed from year to year, and the dividend rate follows. Under Column (4) appear the accumulating amounts which are carried forward from year to year in the revenue account—being composed for the most part of the net under Column 1 which has not been distributed, used to “write off” depreciated securities, or shunted into the reserve account. Column (5) indicates profits from turnover of holdings, and the two following columns account every year for the use of the entire amount, either in the “invisible” reserve (Column 6), or in increasing the “visible” reserve (Column 7). The last column shows the reserve (i. e., the “visible” or balance-sheet reserve). Because so many items are left out in so compressed a table it must not be expected that the several columns will always exactly supplement each other. The footnotes will explain the recent changes in Column (8).

¹ Most of these figures are not official. They are computed from data examined in the offices of the companies.

EDINBURGH INVESTMENT TRUST

FIGURES TO NEAREST £500

Year	1	2	3	4	5	6	7	8
	Balance of income available for deferred	Distributed to deferred	Percentage of dividend	Balance on revenue account carried forward	Profits on realizations	To depreciation account therefrom	To reserve therefrom	Reserve
	£	£	%	£	£	£	£	£
1889	.....	.....	.....	.....	.....	.....	.....	.....
1890	6,000	4,000	8	1,000	9,500	.....	9,500	11,500 ¹
1891	11,000	9,500	7	500	2,000	.....	2,000	27,500 ²
1892	12,000	8,000	5	1,000	500	580	.....	20,000
1893	10,000	8,000	5	500	4,500	4,500	.....	20,000
1894	6,500	6,500	4	500	5,000	5,000	.....	.....
1895	4,000	3,000	2	1,000	2,000	2,000	.....	.....
1896	2,500	3,000	2	500	4,500	4,500	.....	.....
1897	6,000	5,000	3	1,500	3,000	3,000	.....	.....
1898	7,000	5,000	3	3,500	8,000	8,000	.....	.....
1899	9,500	8,000	6	5,000	4,500	4,500	.....	.....
1900	10,500	8,000	5	4,500	3,500	3,500	.....	.....
1901	14,000	9,500	8	5,000	8,000	.....	8,000	3,000
1902	14,000	11,000	7	8,000	14,500	.....	14,500	15,000
1903	15,000	11,000	7	8,500	17,000	.....	17,000	30,000
1904	16,000	11,000	7	13,500	1,000	.....	1,000	50,000
1905	15,500	13,000	8	13,000	8,500	.....	8,500	50,000
1906	18,000	13,000	8	14,000	16,500	.....	18,500	62,500
1907	24,000	19,000	10	19,500	10,000	500	9,500	90,000 ³
1908	35,500	19,000	10	23,500	5,500	5,500	.....	100,000
1909	29,000	19,000	10	24,500	19,000	9,000	10,000	110,000
1910	28,500	26,500	14	26,500	28,000	18,000	10,000	120,000
1911	35,000	30,000	16	29,000	12,000	2,000	10,000	130,000
1912	34,500	30,500	16	31,500	22,000	12,000	10,000	140,000
1913	41,000	32,000	17	35,000	18,000	8,000	10,000	150,000
1914	46,000	32,000	17	43,000	7,500	7,500	.....	150,000
1915	36,000	31,500	17	47,500	18,000	18,000	.....	150,000
1916	42,000	34,500	20	55,000	6,500	6,500	.....	150,000
1917	48,000	30,500	20	72,600	.....	.....	.....	150,000
1918	45,500	30,000	20	88,000	.....	.....	.....	250,000 ⁴
1919	48,500	28,500	20	39,000	1,000	1,000	.....	200,000 ⁴
1920	57,000	33,500	20	42,500	2,000	500 ¹	.....	100,000 ⁴
1921	53,500	33,500	10	62,000	1,000	1,000	.....	100,000
1922	43,000	33,500	10	65,000	500	500	.....	100,000

¹ Expenses of new issue of stock deducted.² Partly from premiums on issues of new shares.³ From minutes of *Annual Meeting*, 1918.—"In view of the pro-

The Chairman of the Edinburgh Company states that the secret of investment trust management is to avoid losses on holdings and allow a portion of net revenue to accumulate at compound interest. There are three factors of reserve power in the Trust we are considering—the accumulations under Columns (4), (6) and (8). Column (6), of course, shows only that part of the "invisible" reserve which has been contributed by profits on realizations. Interest from the securities representing these funds enters the annual income statements and is more than returned in the margin regularly set aside for one kind or another of reserve. However, the Company in its earlier history has not been quite as successful in avoiding heavy depreciation of its holdings—an experience which it shared at this period with all other companies.

It had hardly been launched before the Baring crisis broke over England. Precipitated by South American diffi-

portion of the Company's assets *now invested in British Government securities*, it is unnecessary to retain so large a *depreciation account* . . . £100,000 has therefore been carried *from that account to the reserve fund* . . . There remains at the credit of the depreciation account the sum of £132,769. . . ."

* *In this year a bonus was given to the ordinary stockholders of £160,000, distributed in the form of £64,000 in debentures, £58,000 in 4½% preferred, and £38,000 in ordinary stock. In addition, the preferred stockholders received £9,000 as a bonus.*

The reserve of £250,000 of 1918 was, therefore, reduced to £81,000. To this £69,000 was added from the surplus revenue (column 4) and £50,000 from the depreciation fund, making the reserve stand at £100,000.

† To the reserve of the preceding year £120,000 has been added from the depreciation fund (not shown in the table). A bonus of £240,000 in ordinary stock has been distributed, reducing the reserve to less than £100,000. The difference is made up from surplus revenue. By this bonus the ordinary stock outstanding is increased from £340,000 to £480,000, thereby halving the dividend of the following years (1921-1922) (see column 3).

culties, this tremendous shaking-up of the British financial system left its effects in every part of the industrial world. Shadows of the London crash, coupled with too eager industrial expansion and a Government policy of monetary inflation, brought on our panic of 1894. As investment trusts were heavily involved in the United States, as well as Argentina, they keenly felt the industrial stagnation of the early and mid-'Nineties. The dividend rate of the Edinburgh Company falls from eight per cent in 1890 and seven per cent in the following year, to two and three per cent from 1895 to 1898. As compared with the preceding and following years, the profits on realizations are scanty, and they are immediately used to write off certain depreciated securities. The reserve is reduced for the same purpose in 1892, and two years after that it disappears altogether, being more than used up to meet the losses of the loan period. It is impossible to say whether the management would have been so conscientious in keeping the balance-sheet figure on investments in line with slumping market values if the principles of the Verner case had been established at the time. At any rate no visible reserve reappears until 1901, and the balance on revenue account makes no appreciable advance until the late 'Nineties.

From 1899 we follow an absorbing account of the way in which money may multiply itself by conservative investment. The Edinburgh Trust has weathered the crisis without once passing dividends, but the struggle of the 'Nineties has taught it principles of management which are responsible for the unbroken rise in its dividends to the present time. The reserve grows rapidly, and the increasing profits on realizations are entirely used to augment it from 1901 to 1906. Similarly the balance carried forward on revenue account shows a regular advance to 1918. In Column (5) there are reflections of unsettled conditions in

1904 and 1905, and again in 1907 and 1908, but from the latter year, and up to the outbreak of the war, the capital profits are great enough to split between the "visible" and "invisible" reserve.

In the Annual Meeting of 1910 we read that "In view of the reserves which have been accumulated, the directors consider that a greater proportion than hitherto of the interest and dividends received may be distributed, and that profits on sales of investments should suffice for any further strengthening of the reserves." The results may be traced in Columns (1) and (2). To visualize the meaning of this statement we must first place side by side the annual valuation of the Company's holdings, and the figure at which these holdings appear in the balance-sheet. Little information concerning the former is disclosed before 1899, when the statement is made that "the usual valuation shows that the assets fully equal the capital". Prior to that time they were probably far below. It may be assumed that assets as a whole show little or no depreciation in the period between 1899 and 1908. In the latter year the directors again declare the capital is unimpaired.

The following table shows *excess* of actual valuation over balance-sheet figures in the years after 1908:

1909	£80,000
1910	150,000
1911	150,000
1912	150,000
1913	135,000
1914	125,000
1915	30,000
1916	100,000
1917	145,000
1918	135,000
1919	185,000
1920	245,000

We must bear in mind that the total reserves are as much more than these figures, year by year, as the amount of (visible) "reserve" and "revenue carried forward" appearing in the balance-sheet. These figures are the more remarkable when we note that in 1918 £100,000 has been carried to the (visible) reserve, reducing by that amount the above figure for that year—and converting an apparent loss of £10,000 in surplus valuation to an actual gain of about £90,000. The reasons for this transfer from "invisible" to "visible" reserve are given in the third footnote to the table. Furthermore, in 1919 a stock bonus of nearly £170,000 has been distributed, and in re-dressing the accounts to meet this increase in share capital, a further appropriation of £50,000 has been made from the depreciation account [see footnote (4)]. Similarly in 1920, an added sum of £120,000 has been credited to the visible reserve from the depreciation account to permit of a distribution of £240,000 in bonus ordinary shares to the common stockholders [see footnote (5)].

If we add to the excess valuation of the latter year, which is £245,000, the figure for "reserve" appearing in the balance-sheet of 1920 (100,000) and the amount for "balance on revenue account carried forward" (42,500) we have a total of nearly £390,000. This represents the difference between the entire outstanding capital of every kind (debenture, ordinary, and preferred) and the valuation at current prices of all the trust's holdings. In other words, the equity behind the common stock is the sum of this figure and the equivalent of the common stock (now £480,000), or about £870,000. This represents a "break-up" value of more than £180 for each £100 of common stock, notwithstanding the fact that the common stock has just been doubled by a bonus issue: To gain a correct view of the position of the original ordinary stockholder at this

time, it must be borne in mind that the bonus issues referred to above increased the common stock outstanding from £200,000 to £480,000, and in addition gave the shareholder a handsome block of debentures and preferred. The equity of £870,000 mentioned above must be compared with the original investment of £200,000, from which it appears that every pound originally put in the ordinary stock has been nearly quintupled despite the high rates of dividend paid in the preceding twenty years.

So far the only unfavorable effect of the War seems to be the heavy depreciation in 1915, which is followed by an extraordinary advance in values reflecting the hey-day of war prosperity. The excess valuation keeps climbing until 1920. What follows is equally interesting:

In 1921 the valuation is £70,000 *less* than the balance-sheet figure for investments.

In 1922 the valuation is £40,000 *less* than the balance-sheet figure for investments.

The 1921 figure reveals a depreciation from the previous year of over £300,000 in investments—a tumble of about eighteen per cent. This fall can be accounted for in several ways. The policy of the Edinburgh Trust has been to invest considerable funds in common shares. The wise selection of these junior securities in part explains the high figure of 1920, when business was still booming.¹ The slowing-up of production depreciated these holdings, though they are still in excess of cost. The principal shrinkage arises in Government bonds, of which this Company now holds large blocks, and fixed-interest-bearing securities. The rise in interest rates attending the period of liquidation sufficiently explains the drop.

The reserves are so strong, however, that in 1921 the

¹The Annual Meeting is held in the Spring.

capital is not only unimpaired, but a surplus remains amounting to over £90,000 (i. e., the equity for the common stock is reduced to £570,000, which is £90,000 in excess of the par value of outstanding ordinary shares). In 1922 the depreciation has decreased to £40,000, and the equity stands at an amount of at least £600,000. The writer has been informed by the Directorate, however, that owing to the recent easing in interest rates and a better business outlook, the present value of holdings is at least equivalent to the balance-sheet figure. Assuming this to be true, the equity for the common stock is fully £640,000, which represents more than threefold the original investment,¹ at a time when the stock is itself drawing a dividend of ten per cent.

One cannot fail to note that the uninterrupted dividend is due to the way in which the "invisible" reserve absorbed a large part of the shock of heavy depreciation, and the revenue surplus and "visible" reserve further cushioned the blow. Through the times of war peril and after-war adjustment the Company sailed serenely, and there is every indication that better days await it.

The Second Edinburgh Trust was organized in 1902 and is under the same management. The policy in distributing available income has been different, as will be seen in the figures below.

There has been a steady rise in the dividend rate from three and a half per cent in 1903 to fifteen per cent from 1916 to 1921. Moreover, the net income has been sufficient to justify bonus issues in ordinary stock totalling £90,000 in the years 1909, 1911, 1918 and 1921. The distribution

¹ The original shares (1889) were issued at £10. After payment they were converted into preferred and common at a ratio of 6 to 4 respectively. In other words, for each £10 invested the shareholder received £6 in preferred and £4 in ordinary. It is only in the latter that the pyramiding of values occurs.

has been effected by writing profits into the depreciation account (or "invisible" reserve), transferring sums from the latter to the balance-sheet reserve and reducing this reserve in proportion to the increase in stock.

THE SECOND EDINBURGH INVESTMENT TRUST¹

(FIGURES TO NEAREST £500)

Year	1	2	3	4	5
	Balance of income available for deferred	Distributed to deferred	Percentage of dividend	Profits on realizations ²	Reserve
	£	£	%	£	£
1903	6,000	3,500	3½	1,500	.....
1904	6,500	4,500	4½	2,500	.....
1905	8,000	4,500	5	17,000	.....
1906	10,000	5,500	6	17,500	15,000 ³
1907	14,000	5,500	6	7,500	30,000 ³
1908	13,500	7,500	8	12,500	30,000
1909	12,000	8,500	8	7,500	30,000
1910	14,500	8,500	8	16,500	40,000 ⁴
1911	17,000	9,000	8	9,500	40,000
1912	17,500	9,000	8	10,500	50,000 ³
1913	21,500	14,500	12	6,000	50,000
1914	21,000	14,500	12	5,000	50,000
1915	24,000	13,500	12	9,500	50,000
1916	34,500	15,500	15	1,000	50,000
1917	31,000	14,500	15	1,000	50,000
1918	30,500	16,500	15	500	50,000
1919	34,500	15,500	15	2,500	100,000 ³
1920	43,500	15,500	15	3,500	100,000 ⁴
1921	35,000	21,000	15	500	100,000

Comparing columns (1) and (2) of each of the fore-

¹ Columns 1, 2 and 3 to 1917 are taken from 1917 Annual Report of the Company. For the later years and columns 4 and 5, figures are compiled from revenue accounts.

² Includes premiums on issue of debenture stock.

³ By transfer from depreciation account, or invisible reserve.

⁴ Reduction of reserve by issues of bonus shares.

going tables it will be seen that the older company has regularly distributed a larger proportion of its net revenue, and issued a relatively greater volume of bonus shares. The equity for each £100 of common stock in the Second Edinburgh Company is therefore greater. The amount of ordinary shares outstanding for this Company is £200,000, and the latest valuation shows the equity for common to be £340,000. By allowing for the £90,000 of bonus stock issue we reduce the cost of outstanding common to £110,000. At the current valuation of its holdings the Second Company has tripled the original investment in its ordinary stock, despite the regular dividend of 15%.

Each company during its entire history has widely distributed its investments. The Edinburgh Trust has had from two hundred and fifty to three hundred different holdings, with an average amount of from £2,500 to £14,000 invested in each. In common with other companies, these trusts have heavily invested in war issues, so that figures given for distribution of their investments except government bonds—the amount of which virtually represents their liquidation of American securities.

A fact worth noting is that these two companies barely balanced losses with gains from the sale of their securities during the war. At a time when exchange was much in their favor through the stiffening of the dollar and other neutral currencies, it seems peculiar that sale under the compulsion of war-need was not more profitable. It has been generally the case that trust companies liquidated many profitable holdings at a distinct loss to increase their participation in war loans, and such wholesale dumping of investments has not permitted the holding of each security until the right time for realization. If common stocks were high, preferred stocks and bonds were low. While high exchange cancelled many losses and increased some gains, it did not do more than wipe the slate clean.

It will be interesting to compare the foregoing figures with a table appearing in the June 15, 1922 number of the *Stock Exchange Gazette*, and giving certain salient facts regarding the earnings, dividends, and surplus revenue of leading trusts for the last year.

We present the net revenue results in the last financial year of each of a selection of twenty trust companies after the service of the debenture and the provision of dividend on the preference stocks, and in tabular form exhibit, as accurately as practicable, how this net revenue is disposed of:

Title of Trust Company	1	2	3	4	5
	Net revenue available for ordinary dividend	Dividend paid	Surplus net revenue	Appropriated to reserve	Amount carried forward
	£	%	£	£	£
Finance Trust Company	97,100	21	38,300	37,500	33,600
American Investment and General Trust Company	41,000	14	6,000	.....	50,600
Royal Navy Investment Trust	22,300	10½	7,600	7,000	10,900
Bankers Investment Trust	65,300	6½	24,100	20,000	22,400
British Investment Trust	120,500	15	36,500	.....	164,800
British Steamship Investment Trust	158,600	17½	61,900	.....	367,200
Edinburgh Investment Trust	43,100	10	9,500	6,000	64,900
Foreign, American and General	35,800	6½	1,700	.....	35,600
Foreign and Colonial Investment Trust	69,600	7	15,400	14,000	50,400
General and Commercial Investment Trust	17,800	8	1,000	.....	20,400
Guardian Investment Trust Company	24,200	7½	700	6,700	10,000
Industrial and General Trust	120,300	12	27,900	25,000	26,800
International Investment Trust	24,800	6	8,000	.....	11,200
Investment Trust Corporation	111,200	15	26,700	.....	109,000
London Trust Company	41,000	10	14,800	10,000	50,400
Mercantile Investment and General Trust Company	135,700	9	41,200	25,000	79,800
Merchants Trust	51,200	9	15,900	.....	48,400
Metropolitan Trust Company	52,800	14	13,600	.....	51,200
Second Industrial Trust	17,300	5	6,800	5,000	6,900
United States and South American Investment Trust Company	39,400	7½	13,300	7,000	31,100

Most of these companies, while paying liberal dividends, hold back from distribution at least a fourth of their net revenue, and some of them a much larger proportion. The greater part of the amount withheld is generally appropriated to reserves. Column (5) shows the accumulation of surplus revenue, which is increased from year to year by as much of the undistributed net revenue as is not appropriated to reserves.

CHAPTER XIV

TENDENCIES IN INVESTMENT TRUST DEVELOPMENT

RETROSPECT AND PROSPECT

THE Investment Trusts given in Section A of Appendix IV are arranged in Appendix V according to the date of their organisation. The figures there given for outstanding capital are as of 1922. As they are taken from a different source they do not always agree with the same items in Section A.

By reference to this list it will be seen that the oldest investment trusts date from the early Seventies, but few are organised until the last year of that decade. The period of greatest activity is the three-year stretch from 1888 to 1890, over thirty trusts being organised at this time. During the Nineties there is little activity, but further development appears from 1907 to the outbreak of the war.

About fifty companies in the list of Section A have at present an outstanding share and debenture capital of \$500,000 or over. After roughly classifying these by size, the following shows their approximate dates of organisation:

Outstanding Share and Debenture Capital	No. of companies	Dates of organization			
		Scattered	Seventies	1885-1890 inclusive	Since 1900
£ 500,000-£ 1,000,000	20	3	1	7	10
£ 1,000,000-£ 2,000,000	16	3	1	11	1
£ 2,000,000-£ 4,000,000	12	3	3	5	1
£ 4,000,000 or above	4	..	..	4	..
	52	8	5	27	12

More than half of these larger trusts, and nearly all those of greatest capital, were organised in the period of the late Eighties.

A. Debenture issues.

By adding the totals for share and debenture capital of the companies organised during the indicated periods we arrive at the following ratio of outstanding debentures to ordinary and preferred stock :

During the years (inclusive)	There were companies organized	Having at present the following ratio of outstanding debentures to share capital
1860-1879	11	57 %
1880-1889	36	66 $\frac{2}{3}$ %
1890-1899	12	63 %
1900-1909	11	50 %
1910-1920	15	38 %

It might be expected that the older a company is the larger will be its capitalisation. This circumstance does not altogether explain the diminishing ratio of debentures, for most of the companies since 1900 have had time to establish and use their borrowing power. The chief cause is the combination of factors which has tended to discourage debenture issues since the Nineties, and to develop of late years the financing, trading and promoting company rather than the investment trust. If the former type of company were included in the preceding table we should notice a considerable organisation activity since 1909 and an apparent stimulus lent by the war. The number of companies would be increased by a hundred to a hundred and fifty. The capital would expand from one hundred millions to a total between two hundred and fifty and three hundred mil-

lions. The ratio of debentures would be farther reduced, for the more speculative character of the financing company's business does not generally give it the same measure of borrowing power. In Chapter VIII the outstanding share capital of active financing companies is given as about one hundred and ten millions sterling, and the debentures as forty millions. The debenture ratio is therefore about thirty-five per cent. If those organised recently were segregated the proportion of debentures would probably be much lower.

Provided a company's borrowing power is well established, it will issue debentures on condition that an ample margin exists between the cost of obtaining money for long periods, and the return which can be got from investing this money.

B. A sketch of investment trust development.

I. THE SEVENTIES

At the time when investment trusts were first organised, it was not anticipated that they would play so important a rôle in the export of British capital. The object was to get for the small investor a larger return on his capital than could be obtained by purchasing gilt-edged domestic issues. At home the bank rate was low and consols were correspondingly high. In the United States a new era was opening and in South America the dawn of a great expansion was not far off. Comparatively few men at that time were well enough posted to "play a safe hand" in purchasing from the confusing variety of good, bad and indifferent offerings, even though legitimate undertakings in new countries could well afford to pay two to three times the English rates.

Before the resumption of specie payments in the United States (1879) the pound sterling commanded over five dollars. The American government went on record for the resumption of the gold standard in 1878 and the assurance

that our money would appreciate further encouraged investment in state, county and municipal bonds, public utilities and railways.¹

It is not surprising, therefore, that solicitors, accountants and trustees, in guarding the interests of large estates, should inform themselves of foreign developments; and that they should cooperate with bankers and financiers in mobilising the funds of small investors. The movement probably had its first impulse in Scotland but it quickly spread to London, and since that time the developments north and south of the Tweed have been parallel except for certain minor differences discussed below.

II. THE ACTIVE EIGHTIES

The following figures are high quotations for consols since 1870:

1870 ² ... 94 $\frac{3}{4}$	1881 ... 103	1891 ... 97 $\frac{1}{2}$	1901 ... 97 $\frac{3}{4}$	1911 ... 82 $\frac{1}{4}$
1871 ... 94	1882 ... 102 $\frac{1}{2}$	1892 ... 96 $\frac{3}{4}$	1902 ... 97 $\frac{3}{4}$	1912 ... 79 $\frac{1}{2}$
1872 ... 93 $\frac{3}{4}$	1883 ... 102 $\frac{3}{4}$	1893 ... 98 $\frac{1}{4}$	1903 ³ ... 93 $\frac{3}{4}$	1913 ... 75 $\frac{3}{4}$
1873 ... 94	1884 ... 102 $\frac{3}{4}$	1894 ... 102 $\frac{1}{4}$	1904 ⁴ ... 91 $\frac{1}{2}$	1914 ... 77 $\frac{3}{4}$
1874 ... 93 $\frac{3}{4}$	1885 ... 101 $\frac{1}{2}$	1895 ... 108 $\frac{1}{4}$	1905 ... 91 $\frac{3}{4}$	1915 ... 68 $\frac{1}{2}$
1875 ... 95 $\frac{3}{4}$	1886 ... 102 $\frac{1}{2}$	1896 ... 113 $\frac{3}{4}$	1906 ... 91 $\frac{1}{4}$	1916 ... 61 $\frac{3}{4}$
1876 ... 97 $\frac{1}{2}$	1887 ... 103 $\frac{3}{4}$	1897 ... 113 $\frac{3}{4}$	1907 ... 87 $\frac{1}{2}$	1917 ... 56 $\frac{1}{2}$
1877 ... 97 $\frac{1}{2}$	1888 ... 103 $\frac{1}{2}$	1898 ... 113 $\frac{1}{2}$	1908 ... 88 $\frac{1}{2}$	1918 ... 63 $\frac{1}{4}$
1878 ... 98	1889 ⁵ ... 99 $\frac{1}{4}$	1899 ... 111 $\frac{1}{2}$	1909 ... 86	1919 ... 60
1879 ... 99 $\frac{3}{4}$	1890 ⁶ ... 98 $\frac{3}{4}$	1900 ... 103 $\frac{1}{4}$	1910 ... 83 $\frac{1}{2}$	1920 ⁴ ... 52
1880 ... 100 $\frac{3}{4}$				

(Figures are given to the nearest one-fourth)

¹ Many Government issues were for the purpose of aiding rail development. The Municipal Trust Company is one of the companies organized to buy American municipal bonds (especially in the West and Southwest), at a time when sterling commanded a high rate.

² To 1889, interest was at the rate of 3% per annum.

³ For the fourteen years from April 1889 to April 1903, the rate has been 2 $\frac{1}{4}$ %.

⁴ The rate has been 2 $\frac{1}{2}$ % since 1903.

The consols nearly touched par from 1876 to 1879, and for the decade of the Eighties they are a shade above, reaching high in 1887-1888. The apparent decline in 1889 is more than accounted for by the change of interest rate in that year. This shows clearly the abundance of capital at home and the need of seeking foreign channels of investment. Debentures could be issued at this time at such a premium as to net a cost of only three and a half to four per cent.

III. THE BARING CRISIS, AND THE "SOBERING" NINETIES

The slight decline in consols from 1890 to 1893 reflects the Baring crisis and the stiff demand for funds. The spectacular rise to a high point of one hundred and fourteen in 1897 may be explained in part by the easing of money rates following the depression, and the temporary demand for a perfectly safe investment following the disturbing events in the business world.

The Baring crisis and the years immediately following it mark a time of great difficulty for the investment trusts. The experience of the first Edinburgh Company, cited in an earlier chapter, was shared by the better managed ones; but those which had been more reckless came to grief. In this time of self-searching, many companies realised their mistake in loading up too heavily with certain projects, and neglecting the first rule of safety in distributing their risks. Over-zealous directors had been shunting speculative issues, and those which had failed of popular sale, into strong-boxes of their companies. Doubtless many of them sincerely believed that these issues were sound. Certainly the fact that "carpet bagging" bonds of American states,¹ and other questionable paper found so ready an access to the portfolios

¹ A list of repudiated American bonds can be found in the annual report of the British Corporation of Foreign Bondholders. (1922.)

of many companies reveals an eagerness to net more than the eight per cent which could be conservatively earned.¹

To cite only a few illustrations, the Gas, Water and General Trust had involved itself in sugar plantations and a nameless railroad reaching out from New Orleans. Despite the admirable management since its reorganisation, it has not yet gained financial strength. A predecessor of the Metropolitan Trust had been used to absorb Argentine provincial Government issues which fell in the Baring crash.² In common with many others, the Anglo-American Debenture Company wrote off its heavily depreciated holdings, but by skilful management has at last succeeded in making good the whole loss to its stockholders by building up its reserve and issuing bonuses.

Following the unhappy experiences of the early Nineties and encouraged by the Verner³ decision, a number of financing companies altered their Articles of Association to those of the investment trust.⁴ Others had by this time outgrown their earlier special interests and lost their more active directors. If a quantity of good securities had accumulated in their portfolios, there were many advantages in limiting their activities to investment. The investment trusts on their part became more conservative. Less sanguine people entered their directorates and holdings in any one undertaking were reduced from a maximum of £50,000 to £100,000

¹ To the outbreak of the War probably thirty to fifty per cent of all investments were in the States.

² When the Metropolitan Trust was founded, the stockholders of the "New Imperial Investment Trust" (itself a re-organization) were offered the option of receiving cash at the rate of £70 for every £100 preferred and £12 for every £100 ordinary, or the equivalent amount of fully-paid shares of £1 in the new Company.

³ Chapter xii.

⁴ For instance, the Anglo-American Debenture.

to a maximum £20,000 or £25,000.¹ The conservatism of investors in the late Nineties made the issue of debentures a feasible policy for trusts whose credit was unimpaired.

IV. SMOOTH SAILING SINCE 1903

The rapid fall in consols since 1900 shadows a rising rate for money, coincident with the great expansion in corporate activity in the two decades before the war. During most of this period American railway bonds afforded an excellent investment. The older trusts enjoyed large margins, because they had obtained their working capital either permanently or for long periods, and at the lower costs of an earlier era.

The newer companies have found difficulty in profitably borrowing. Even at the higher rates, money was not readily forthcoming until they had proved their metal. Only a few companies incorporated since 1908 have debentures in any quantity outstanding. The time has not seemed propitious for organising new investment trusts, or increasing heavily the fixed-interest commitments of the old. As noted above, the war seems rather to have encouraged the speculative and promoting type of company, whose funds are obtained by share capital.

V. DIFFERENCES BETWEEN SCOTTISH AND ENGLISH COMPANIES

The differences between Scottish and English investment trusts are few, and for the most part unimportant. Many of the former are closely connected with London houses (as with Robert Fleming and Company) and a few companies of Scottish origin now have their headquarters in London. The Companies Acts are identical for both countries. Although the same tax laws are differently administered, there are advantages under each practice.

¹ The average investment to-day is probably not a fifth of this.

Certain companies keep their offices in Dundee, Aberdeen, Glasgow, or Edinburgh, to save expense. It is amusing to encounter the different points of view of the metropolitan and country trusts. By the London company a Scottish concern not affiliated with the "City" is regarded as far from the centre of things. Scottish trust officials, on the other hand, pride themselves upon mastering the technique of investment trust management much more thoroughly than their fellows in London. They can support this claim by pointing to such successful companies as the Edinburgh Trusts, and the Alliance Trust of Dundee.

For reasons given above, the terminable debenture is much in vogue in Scotland, although it is used little, if at all, by English companies. A further peculiarity is the growth of the Scottish trusts about the offices of solicitors and accountants. Their evolution seems to have been slower, and not actuated to the same extent by purely business motives on the part of their promoters. The germ of the whole movement may be traced to the experience gained by lawyers and trustees in administering larger estates.

Notwithstanding their development some hundreds of miles from London, the Scottish trusts have been if anything even more cosmopolitan in their interests than the English companies. The mortgage business of America and Canada has been fostered by many companies organised for this purpose, and it is probable that in proportion to the capital of their companies Scottish trust officials have had more direct contacts with American business men.

C. Shifting of Investment Trust Holdings. The War and After.

During the war period investment trusts could not expand their business. Government loans drove up the rates of interest, and even without the legal limitations imposed upon

new issues, patriotic motives would have prevented their competing for new capital.

Reasons have been given above for the scanty profits made on the sale of their holdings during the war. The trusts were extremely helpful to the government in mobilising foreign securities acceptable for American credit, and their officials assisted in developing the machinery therefor. Often at a real loss their American investments were sacrificed to enable them to subscribe more liberally to war loans; and when the dollar stocks were not sold they were deposited with the Treasury.

Notwithstanding the depreciation of many of their investments, and the sacrifice of others, the trusts were prosperous during the war. For the most part their revenue continued steady and on that portion of their holdings kept with the government a bonus of one half per cent extra was given. The earnings during this period are discussed in an earlier chapter.

It remains to point out the principal tendencies in the shifting of investments which have appeared during and since the war.

I. The most noticeable one has been the unloading of dollar securities and the failure to make new investments in the United States. This policy has been almost as marked since the war as during it. It is clear where we find published statements of purchases and sales during the last two years.

In 1921 the Foreign and Colonial Investment Trust sold nearly £200,000 worth of its securities. Almost half of the sales were of dollar investments. Practically an equivalent amount was purchased in the same year, but not one dollar bond or share appears among them. The Foreign, American and General Investments Trust Co. realised on its American holdings in a recent year one-third of the value of its total sales, and bought only two dollar issues from

among thirty appearing in its purchase account. The British Investment Trust reports a reduction of its American holdings during 1921, of nearly £250,000 and its Chairman states that "we expect to continue in the same direction to a considerably further extent." The same is true of the American Investment and General Trust Company, about one-half of whose sales in 1921 were of American securities, and whose purchase of our offerings was negligible. So strong has been this movement that the Fleming interests¹ have almost withdrawn from American securities.

Turning to such classified reports and holdings as are available, we see the same tendency. Below are a few illustrative figures:

PERCENTAGE TOTAL INVESTMENTS IN AMERICAN SECURITIES

	Before the War 60% to 70%	In 1922
Anglo-American Debenture Co.	ditto	Approximately 25%
Railway Share Trust and Agency Co.	ditto	ditto
The Railway Debenture and General Trust Co.	ditto	ditto
The Scottish Northern Investment Trust	Over 50%	Approximately 12%
The Second Scottish Northern Investment Trust.....	Approximately 60%	ditto

The "unpegging" of sterling in the spring of 1919 raised the dollar to new high levels comparable with quotations before the price of the pound was fixed in New York in 1917. This has encouraged the further sale of dollar holdings as opportunity offered.² It is probably not far from the truth

¹ Section A, Appendix IV.

² Certain companies which have had large interests in America are now finding difficulty in buying adequate investments with their free funds without driving up the market against them.

to say that in 1914, of the £75,000,000 to £100,000,000 of investment trust capital, fully 90 per cent was sunk in overseas holdings, America being the largest single claimant; and that approximately one-third of these foreign investments were mobilised for the government, most of the latter being subsequently sold. If the dollar continues to weaken, however, there may be an effective check to further sales.

The most cogent factor operating against the purchase, or retention, of dollar securities is the Federal Income Tax, whose effects have been discussed in the sections on taxation.

II. Hand in hand with this withdrawal from the States is appearing a marked increase of interest in Latin America. Britain's commitments were heavy in the A. B. C. powers before the war,—heavier probably than those of any other country, not excepting France. The fixing of sterling rates in New York during the later years of the war helped her to conserve this position. The pressure of her industries for export trade, coupled with the fact that in southern South America we find one of the most promising of politically untroubled regions, has made a deepening of old associations distinctly profitable. The classified lists of the Merchants Trust, published in 1914 and 1922, illustrate this tendency:

DISTRIBUTION OF INVESTMENTS

	1914	1922
Home	14.85 per cent	29.59 per cent
Continental	2.14 "	3.55 "
Colonial	10.73 "	9.23 "
United States (railways)	30.95 "	22.89 "
United States (miscellaneous)	19.79 "	8.08 "
River Plate	9.28 "	12.47 "
Other localities	12.26 "	14.20 "
	100.00 "	100.00 "

The same is true of the reports of the Industrial and General Trust:

DISTRIBUTION OF INVESTMENTS

	1914	1920	1921	1922
Great Britain.....	29.26%	39.25%	40.61%	40.09%
United States of America	23.69%	7.92%	7.00%	6.45%
British Colonies and Dependencies ...	13.57%	14.55%	13.02%	13.06%
Argentine Republic	11.55%	15.99%	17.22%	16.69%
South America, excluding the Argentine Republic	8.87%	13.46%	12.18%	13.38%
Mexico and Central America	5.25%	3.24%	4.61%	4.12%
Europe, excluding Great Britain.....	3.22%	3.44%	2.95%	3.40%
Asia, excluding British Colonies and Dependencies	4.59%	2.15%	2.40%	2.81%
	100.00%	100.00%	100.00%	100.00%

Great increases are shown in domestic holdings and particularly in South American interests. The withdrawal from the United States is equally noticeable. While figures are not available to prove this, there are rumours that British trusts are also buying Chinese, Japanese and Indian securities from their Continental holders.

Exchange is again important in this connection. In terms of the pound, present rates for the principal South American currencies have been nearer par than the dollar. The confidence which most Englishmen have that sterling will reach par operates much more to discourage purchase of dollar than of other units at not so high a premium. Trusts dare venture afield when little capital loss is risked from appreciation of sterling.

III. A further use of funds withdrawn from American securities is in sterling issues of domestic corporations engaged in foreign business. Argentine railways are a good illustration of this. While such companies have been long

operating, the present uncertainties of exchange and the thousand other difficulties visiting the path of a promoting company in outlying regions are likely to encourage the tendency further.

IV. Equally marked is investment of funds in British government bonds. It will be recalled that in conditions limiting purchases of any one security exceptions are frequently found in favour of government loans, but there is at present a noticeable tendency to realise on these holdings, and to return to the old principle of broader distribution.

Other funds employed in the United Kingdom have gone mainly into preference stocks. It is yet too early to venture an opinion as to the permanence of this tendency to transfer investments to domestic offerings. The capital loss entailed in the war may create in England's reviving industries an ample demand for her margin of savings. While America is adjusting herself to the full responsibilities of a lending country, the former creditor nations may have to content themselves with the mere reinvestment of interest on their much reduced foreign holdings.

Illustrative figures for this increased interest in home issues are shown in the last tables. The shifting during a three-year period is given by the United States Debenture Corporation in its annual reports of 1920, 1921 and 1922. The percentages of its total investments in dollar securities, and British issues are as follows:

	1920	1921	1922
Dollar Securities	13.8%	11%	9.7%
British Securities	35.6%	43%	44.1%

D. Retrospect and prospect.

I. FURTHER DEBENTURE ISSUES

From one point of view the present time is propitious for the issue of debentures. Lower interest rates are coupled with a preference for non-speculative securities, and in the latter respect we see some of the same motives operating as in the late Nineties. Industrial depression in Great Britain, and the slow revival elsewhere have opened opportunities to acquire sound securities which have depreciated in value through no internal weakness. The keen discrimination of investment trust directors is being brought into play to distinguish between stocks which have become permanently depreciated and those of such intrinsic value as to warrant the assurance that their steady appreciation is merely a question of time.

The United States and General Trust Corporation has recently offered £250,000 of $4\frac{1}{2}$ per cent debenture stock at the price of $87\frac{1}{2}$ per cent. It is redeemable at par in 1962; or at the option of the Company on six months' notice at any time after January 1937, at $102\frac{1}{2}$ per cent. This represents a "flat" yield of $4\frac{7}{8}$ per cent, and is about what several British government bonds net the purchaser. The issue was not vigorously pushed, but subscriptions accumulated from conservative investors, and the whole was readily placed in a wide circle of purchasers.

A factor militating against new debenture issues is the limitation imposed by many companies upon their borrowing power. A number of older trusts have put out their full quota and cannot expand without increasing share capital or altering Articles of Association. Offering debentures at a discount exhausts the borrowing quota without giving a full equivalent for investment.

II. CONCLUSIONS

(1) Strictly speaking, there have been few investment trusts organised in the United States. The Edge Act permits the Federal incorporation of debenture-issuing companies analogous to the British trusts, but in spite of the liberal provisions of that law no advantage has as yet been taken of it for other than short-time trade financing purposes. Federal land banks can of course market their own bonds secured by mortgages. Under the aegis of various states, corporations have been formed for the purpose of issuing shares and bonds, and acquiring thereby holdings in companies operating overseas. Their interests have been narrower than those of the investment trust, and they resemble the financing, holding or promoting company rather than the former. Reference is had to such companies as the American International, and the Foreign Bond and Share Corporation. During the war, a great volume of Allied securities and foreign industrials was marketed by means of the participating certificate, the trustee, and the holding company. Corporations organised to meet a special need and absorb particular blocks of securities are not investment trusts, as the term is applied in Great Britain.

In a broader sense, the United States has many companies similar to the investment trust. The savings bank, the insurance company, the commercial bank, the holding company, the trust company, in its services in connection with equipment trusts,—these and other organisations all facilitate the purchase of securities by drawing money from the public on the strength of their own good names. Many of our public utility companies which are really holding companies interested in numerous cities, are analogous to those semi-financing, semi-investing enterprises in the United Kingdom which partake of the nature of investment trusts.

Few American financiers fully realise the gains which

have accrued from conservative investment trust management in Great Britain. The typical attitude seems to be to question the applicability of the idea in the mobilisation of American capital. In considering the feasibility of organising investment trusts, the emphasis upon large immediate profits obscures the end in view, which is to broaden the field of foreign securities absorbed by ultimate investors. Experience shows, however, that substantial dividends can be paid without venturing beyond conservative lines. It seems probable that for the next few years at least, American development in this direction will resemble the earlier and more venturesome career of some of the now well-established British trusts. The active spirit of American leaders is likely to run to the promoting and financing type of business,—with perhaps the same discouraging results as the British trusts experienced after the Baring crash. It is significant that the Edge Law permits the issue of debentures to ten times the subscribed capital. No British trust would dream of issuing debentures to an amount exceeding its outstanding share capital, and the greatest surprise is everywhere manifested that such a ratio should be encouraged by law.

The active participation of any analogous American companies in the foreign concerns in which they may be interested, is likely to be further encouraged by the high rates for money in the States, and the slim margins between the present cost of capital and the return which can be derived from intrinsically sound foreign securities. If an ample margin requires a more speculative holding, it is inevitable that American management or at least participation should accompany American investment. The probabilities are that our long-time foreign trade financing will be accomplished by a combination of the investment and financing business, in which British experience, although not strictly applicable to American problems, ought to be carefully studied.

(2) The most successful British investment trusts have been those issuing debentures as well as share capital, and distributing their investments over a wide variety of offerings. Several companies earlier engaging in a promoting and financing as well as investing, business have had to reconstitute their capital, and have reached a paying basis by confining themselves to investment activities.

The representative trusts are not affiliated with banks; nor are they generally controlled by issuing houses. The advantages of independence are the complete discretion vested in their directors to purchase only those securities which will make the best investment, and to participate in underwriting only such issues as would prove a sound and acceptable holding in case it is necessary to take the guaranteed quota. Despite their general independence of issuing houses, the broad interests of their directors and the considerable clientele which they control open many opportunities to them for profitable participation, and give them a strength out of proportion to their investing power. At the same time, issuing houses enjoy their co-operation without participating in their organisation.

(3) The investment trusts were organised for the most part in the late Eighties, and the Nineties, the former being the period of greater activity. The economic factors encouraging their development in the late Eighties were the ease of raising money in England and Scotland on a net yield of three and a half to four and a quarter per cent, and the many opportunities of re-investment in foreign securities at from five and a half to six.

The rise in home interest rates which has accompanied the expansion of corporate activity since 1900 has not been fully compensated by a corresponding rise in returns on conservative foreign investments. The cutting down of this margin has limited the expansion of debentures so that from

1912 to 1921 there is a marked increase in the relative importance of outstanding share capital as compared with the former. Even at times when issuing debentures was generally profitable the British trusts have shown marked conservatism in increasing these fixed interest liabilities, the total rarely exceeding one hundred per cent of the issued share capital.

(4) The earnings of most of the investment trusts have been remarkably steady during the war and post-war periods. An analysis of dividends shows that the average paid during the war period was but slightly under that of the years 1912 to 1914, and that there has been an even better record since the Armistice. This steadiness results from the wise mixture of junior and senior securities in their portfolios, and the low rates at which a part of their capital has been obtained for long periods.

(5) The capital account of many trusts revealed a depreciation during the war, and the year 1920. This has not affected earnings for the following reasons:

a. There has been a general recovery of values lately, which has eliminated most of the depreciation and probably left intact the capital of the better managed trusts.

b. As interest and dividends constitute the chief source of an investment trust's distributable income, the dividends paid on its own stock are only indirectly related to stock exchange quotations,—i. e. only insofar as current income is used to mark off depreciated values; and the fluctuations in security prices affect a trust's opportunities for profitable new investment.

c. Profits made from realisation on investments are used to write off such losses, or to build up a liberal reserve maintained by most trusts; and this policy gives steadiness to the dividend record.

(6) There has been a marked tendency since 1914 for

trusts to realise on their dollar holdings, and this movement is still in progress. American income taxation is the most important factor in further liquidation. If our country were in need of foreign capital for its future expansion, it would be necessary to reach reciprocal arrangements for avoiding such double taxation as that to which the British holder of American securities, or vice versa, is subject. With the growth of income taxation in South America, similar arrangements will become necessary.

As exchange has been nearer normal for most South American currencies, British investments have been lately increasing in the A. B. C. powers. The purchase of British government securities during the war has been accompanied by an increased interest in domestic issues, and in sterling issues of British corporations engaged in foreign business.

(7) The fact that stands out clearly is the skill with which most of the companies in Great Britain have been managed. An alert secretary, board, and staff are essential in the successful operation of any investment trust. This is obviously not an easy condition to fulfil, as those responsible must have not only a working knowledge of investments, but also a familiarity with world economic conditions and needs which is only bred by wide experience and contacts. In fact, investment trust management, though difficult, is among the most interesting occupations in the whole world of finance.

APPENDIX I

A CHRONOLOGICAL STATEMENT OF THE RECENT CENTRALIZATION MOVEMENT AMONG BRITISH BANKS

This movement began in 1917, and the principal events are here listed in order:

The *London County and Westminster* acquired the bulk of the capital of the *Ulster Bank*.

The *London City and Midland* acquired the share capital of the *Belfast Banking Company, Ltd.*

The *Anglo-South American Bank* obtained 90% of the capital of the *Commercial Bank of South America*.

Provisional agreements were made and final arrangements completed for the following amalgamations:

The *London County and Westminster* united with *Parry's Bank*; the resulting institution is known as the *London County Westminster and Parry's Bank*,¹ and is one of the "Big Five."

The *National and Provincial Bank* united with the *Union of London and Smiths Bank*; the merger is called the *National Provincial and Union Bank*, and is one of the "Big Five."

The *London and Provincial Bank* and the *London and South Western Bank* united as the *London Provincial and South Western Bank, Ltd.* (This was itself absorbed a little later by *Barclays*.)

In 1918

Three great amalgamations occurred in this year:

Lloyds Bank, and the *Capital and County Bank* united under the name of *Lloyds Bank, Ltd.* This is one of the "Big Five."

The *London County and Midland* united with the *London Joint Stock Bank*. The merger took the name of the *London Joint City and Midland Bank*. This is one of the "Big Five", and the largest of all British banks.

Barclays Bank and the *London Provincial and South Western Bank* merged as *Barclays Bank, Ltd.* This is one of the "Big Five".

¹ Changed to "Westminster Bank" in 1923.

There were other developments only less important during the same year:

The *Bank of Liverpool* and *Martin's Bank* were united as the *Bank of Liverpool and Martin's, Ltd.*

The *National Provincial and Union Bank* absorbed the *Bradford District Bank* and the business of *Messrs. W. & J. Biggerstaff*.

Lloyds Bank took a controlling interest in the *London and River Plate Bank*, and the *National Bank of Scotland*. (It now holds 97% of the stock of the latter bank and 98% of the former.)

In 1919

Two other important Scottish institutions became affiliated with members of the "Big Five", viz:

The *British Linen Bank* with *Barclays*, and

The *Clydesdale Bank* with the *London Joint City and Midland Bank*.

Furthermore, in the same year:

Barclays absorbed *Gillett & Co.*, and the *Union Bank of Manchester*.

Lloyds Bank absorbed the *West Yorkshire Bank*.

The *London County Westminster and Parr's Bank* absorbed the *Nottingham and Nottinghamshire Banking Co.*

The *National Provincial and Union* absorbed the *Sheffield Banking Company* and the great private banking firm of *Coutts & Co.*

The *Bank of Liverpool and Martin's* took over the *Palatine*, the *Halifax Commercial*, and *Cocks, Biddulph & Co.*

In 1920

The amalgamation movement showed some slackening.

The *Anglo-South American Bank* purchased 99% of the share capital of the *British Bank for South America*, and 60% of the capital of *Banco de A. Edwards y Cia.*

Messrs. C. J. Hambro & Son amalgamated with the *British Bank of Northern Commerce*, the name being later changed to *Hambros Bank, Ltd.*

The *National Provincial and Union* took over the *Northamptonshire Union Bank*, and two other small institutions.

London County Westminster and Parr's absorbed *Becketts*.

Barclays took over *Messrs. Tubb & Co.*, and affiliated with the *Anglo-Egyptian Bank* (a Company incorporated under the English Acts).

The *English, Scottish and Australian Bank* acquired 90% of stock of the *London Bank of Australia*.

In 1921

Lloyds acquired *Fox, Fowler & Co.*, the last private bank in England or Wales having the right of note issue.

In 1922

Cox and Company acquired *Henry S. King & Co.*, and their Indian branches—Messrs. *King, King & Co.*, and Messrs. *King, Hamilton & Co.*

*In 1923*¹

Lloyds took over *Cox & Company*, thus acquiring a number of Indian and Egyptian branches.

Glyn, Mills, Currie & Co. took over *Holt & Co.* (Bankers' Army, Navy & Air Force Agents.) (*Messrs. Holt & Co.* were one of the few remaining private banking institutions, and this fusion marks the virtual disappearance of the Army Agent as a separate entity in the banking world.)

This list makes no claim to completeness. It does not indicate all the extensive relations developed during this period in interlocking directorates, working arrangements, agencies and branches. No affiliations of Dominion banks with other Colonial or Dominion banks, or with foreign banks are indicated, and there have been many such. However, the list is complete for important amalgamations and affiliations among banks organized under the English Company Acts. Further details can be obtained from such annual publications as the *Bankers' Almanac* (Thomas Skimmer & Co.), the *Stock Exchange Year Book*, and the *Stock Exchange Official Intelligence*. Also see Appendix III.

¹ i. e., to the time of writing, Feb. 1923.

APPENDIX II

PRINCIPAL BRITISH BANKS AND FINANCIAL HOUSES, SHOWING TOTAL ASSETS ON REPRESENTATIVE DATES IN 1922

Part A. Banks.

	<i>Total Assets or Liabilities</i>
	£
<i>Bank of England</i>	267,473,000 ¹
<i>Joint Stock Banks of England & Wales</i> ²	
<i>Barclays</i>	350,757,000
<i>London Joint City & Midland</i>	407,671,000
<i>Lloyds</i>	373,979,000
<i>National Provincial & Union</i>	291,497,000
<i>Westminster</i>	328,044,000
Total for "Big Five"	1,751,947,000
<i>Total Assets or Liabilities</i>	
	£
Brought forward	1,751,947,000
<i>Baker, Duncombe & Co.</i> ³	9,335,000
<i>Bank of Liverpool & Martins</i>	74,664,000
<i>Coutts & Co.</i> ⁴	19,184,000
<i>Glyn, Mills, Currie & Co.</i>	25,876,000
<i>Manchester & County</i>	26,392,000
<i>Manchester & Liverpool District Bank- ing Co.</i>	63,774,000
<i>Union of Manchester</i> ^{5 a}	26,491,000
<i>Williams, Deacons</i>	42,582,000
<i>Yorkshire Penny</i>	30,618,000
Grand total for joint stock banks	£2,070,863,000

¹ Consolidated statement for Banking and Issue Departments, October 11, 1922.

² As of June 30, 1922.

³ As of September 30, 1922; Union as of December 31, 1921.

⁴ Affiliated with National Provincial & Union.

⁵ Affiliated with Barclays.

	<i>Total Assets or Liabilities</i>	
<i>Irish Joint Stock Banks</i> ¹		
Bank of Ireland	54,485,000	
Belfast Banking Co. ^a	21,540,000	
Hibernian Bank	16,681,000	
Munster & Leinster	31,518,000	
National Bank	51,256,000	
Northern Banking Co.	18,812,000	
Provincial Bank of Ireland	20,527,000	
Royal Bank of Ireland	5,233,000	
Ulster Bank ^b	27,756,000	
Grand Total	<hr/>	£247,808,000
	£	
<i>Scottish Joint Stock Banks</i>		
Bank of Scotland	45,322,000	
British Linen Bank ^c	38,981,000	
Clydesdale Bank ^d	44,862,000	
Commercial Bank of Scotland	52,732,000	
National Bank of Scotland ^e	44,960,000	
North of Scotland, and Town and County	26,590,000	
Royal Bank of Scotland	48,737,000	
Union Bank of Scotland	40,801,000	
Grand Total	<hr/>	£342,985,000
<i>Private Banks</i>		
Charles Hoare & Co.	4,292,000	
Child & Co.	3,797,000	
Holt & Co. ^f	2,344,000	
Cox & Co. ^g	18,953,000	
Grindlay & Co.	2,004,000	
Grand Total	<hr/>	£31,390,000

¹ As of June 30, 1922; Ulster as of November 30, 1921; Royal, and Northern Banking Co., August 31, 1922; Belfast Banking Co., Dec. 31, 1921.

^a Taken over by Glyn, Mills, Currie & Co., February, 1923.

^c Affiliated with Lloyds.

^e Affiliated with London Joint City & Midland.

^b Affiliated with Westminster Bank.

^f Affiliated with Barclays.

^g Affiliated with London Joint City & Midland.

^d Affiliated with Lloyds.

(FOR AFFILIATIONS OF FOLLOWING BANKS WITH BANKS OF
GREAT BRITAIN SEE APPENDIX III)

<i>Principal Banks organized under the English Companies Acts, or Royal Charter (head office, London)— and operating primarily in the Dominions:</i>	<i>Total Assets or Liabilities</i>
<i>African Banks:</i>	£
Anglo-Egyptian	14,090,000
Bank of British West Africa	12,295,000
Standard Bank of South Africa	70,649,000
<i>Australian and New Zealand Banks:</i>	
Bank of Australasia	37,914,000
English Scottish & Australian Bank ..	30,785,000
National Bank of New Zealand, Ltd...	14,175,000
Union Bank of Australia, Ltd.	40,347,000
<i>Canadian Banks:</i>	
Colonial Bank	11,458,000
<i>Indian Banks:</i>	
Chartered Bank of India, Australia & China	61,768,000
Eastern Bank	9,712,000
Mercantile Bank of India	16,429,000
National Bank of India, Ltd.	42,418,000
Grand Total	£362,041,000
 <i>Important Dominion Banks organized under Dominion Acts, or Charters, and maintaining offices in London:</i>	 <i>Total Assets or Liabilities</i>
<i>African Banks:</i>	£
National Bank of Egypt	20,424,000
National Bank of South Africa	61,506,000
<i>Australian and New Zealand Banks:</i>	
Australian Bank of Commerce	13,270,000
Bank of Adelaide	8,232,000
Bank of New South Wales	71,662,000
Bank of Queensland	3,947,000
Bank of New Zealand	43,330,000
Bank of Victoria	14,055,000
Commonwealth Bank of Australia	86,609,000
Commercial Bank of Australia	20,571,000
Commercial Banking Co. of Sydney	38,903,000

National Bank of Australasia	33,195,000	
Queensland National Bank	11,551,000	
Royal Bank of Australia	6,585,000	
<i>Canadian Banks:</i>		
Bank of Montreal	130,774,000	
Bank of Nova Scotia	45,061,000	
Canadian Bank of Commerce	87,974,000	
Dominion Bank	26,267,000	
Royal Bank of Canada	94,180,000	
Union Bank of Canada	30,525,000	
<i>Indian Banks:</i>		
Alliance Bank of Simla	13,177,000 ¹	
Imperial Bank of India	60,502,000 ¹	
Tata Industrial Bank	8,899,000 ¹	
Grand Total		£931,198,000
<i>Principal Banks organised under the English Companies Acts, or Royal Charter (head office, London) — and operating primarily in certain Foreign Areas:</i>		
	<i>Total Assets or Liabilities</i>	
	£	
Anglo-South American Bank	73,435,000	
Bank of Roumania	1,764,000	
British Bank of South America	23,296,000	
Commercial Bank of Spanish America	4,324,000	
Imperial Bank of Persia ²	7,172,000	
Ionian Bank	15,698,000	
London & Brazilian Bank	35,144,000	
London & River Plate Bank	46,854,000	
Grand Total		£207,686,000
<i>Principal Banks organised under the English Companies Acts, or Royal Charter (head office, London) — for purpose of promoting foreign trade generally:</i>		
British Italian Corporation	6,872,000	
British Overseas Bank	4,361,000	
British Trade Corporation	4,396,000	
Hambro's Bank	22,381,000	
P. & O. Banking Corporation	12,911,000	
Grand Total		£50,920,000

¹ Converted at 1s. 4d. to rupee.² Head office, Teheran.

Part B. Financial Houses.

LEGAL STATUS OF ENGLISH BANKING FIRMS AND COMPANIES
WITH CLASSIFIED LISTS OF IMPORTANT PRIVATE HOUSES

The outline below shows the several legal forms which a financial house in London may assume:

Partnership	{	"Limited" (Act of 1907).
	{	"Unlimited" (the common form).
Company	{	"Public" (always "Limited").
	{	"Private" { "Limited" (Act of 1907).
	{	"Unlimited".

The legal distinction between the partnership and the corporation is practically the same for the United Kingdom as for the United States. Since 1907 it has been possible for partnerships to be organized granting limited liability to specified members of the firm. The term "limited partnership" is really a misnomer, however, as the purpose of the law of 1907 was to permit the association of certain partners without the concomitant liability which, however, would have to be shared by other partners. Little use has been made of the Act, *Goschen & Cundiffe* being one of the few English financial firms which has taken advantage of its provisions.

"Private" companies under English Companies Acts may have limited or unlimited liability. The distinguishing features of the "private company" were defined in Section 37 of the Companies Act, 1907, and the provisions are re-enacted by Section 121 of the Act of 1908. A "private company" must limit its membership to fifty, restrict the transfer of shares, and prohibit any invitation for public subscription either for shares or debentures. Companies meeting these limitations may possess the full legal status of corporations and have limited liability, while enjoying peculiar privileges and immunities (such as ease of formation, freedom from compulsory reports, etc. For detail see Palmer's "Company Law" [1921], pages 381-382). Much advantage has been taken of this legal recognition of "private companies", especially by traders.

Among the English private banks, issue and acceptance houses which have registered as "limited private" companies are:

Company	Date of Registration	Issued Capital
Lazard Bros. & Co., Ltd.....	1919	£3,375,000 (£2,250,000 called up)
Matheson & Co., Ltd.....	1908	200,000
Murrieta & Co., Ltd.....	1915	25,566
B. Newgass & Co., Ltd.....	1911	300,000
M. Samuel & Co., Ltd.....	1920	1,200,000

The private banks cited in Part A are incorporated under earlier acts and are registered with unlimited liability.

Most of the merchant bankers, acceptance houses, discount or issuing companies, which are not pure partnerships, are also unlimited private companies. Among them are:

Arbuthnot, Latham & Co.
 Robert Benson & Co.
 B. W. Blydenstein & Co.
 Boulton Bros. & Co.
 Brown Shipley & Co.
 Child & Co.
 Dent, Palmer & Co.
 Dunn, Fisher & Co.
 Robert Fleming & Co.
 Higginson & Co.

Charles Hoare & Co.
 Frederick Huth & Co.
 A. Keyser & Co.
 Mildred, Goyeneche & Co.
 Samuel Montagu & Co.
 Morgan Grenfell & Co.
 Newmann, Luebeck & Co.
 Sale & Co.
 J. Henry Schroder & Co.
 Sperling & Co.

I. Thomson, T. Bonar & Co.

Mention might be made of a few partnership firms in London's discount, acceptance, or issue business:

Messrs. Drummond
 Erlangers
 Anthony Gibbs & Sons
 Goschen & Cunliffe (see above)
 Isaac & Samuel
 Knowles & Foster

Konig Bros.
 R. Raphael & Sons
 A. Ruffer & Sons
 N. M. Rothschild & Sons
 Seligman Bros.
 Speyer Bros.

Stern Brothers

The above companies being "private", figures of capitalization are not generally available.

The following are important merchant banks which are duly registered "public" companies:

Company	Date of Registration	Issued Capital
Baring Bros. & Co., Ltd.*	1890	£1,025,000
S. Japhet & Co., Ltd.	1920	750,000
Helbert Wagg & Co., Ltd.	1919	395,000

The leading discount firms are also limited "public" companies. The following is a consolidated statement of the December 31, 1922, position of Alexanders Discount Company, the Union Discount Company and the National Discount Company:

Capital and Reserve	Bills Discounted	Rediscounts	Investments
£5,100,000	£90,393,000	£25,398,000	£10,460,000

* Organized to take over the banking business of the older firm after the débâcle of 1890.

APPENDIX III

FOREIGN AND DOMINION AFFILIATIONS¹ (THROUGH STOCK OWNERSHIP) OF JOINT STOCK BANKS ORGANIZED UNDER ENGLISH COMPANIES ACTS, OR ROYAL CHARTER²

Bank of England—Anglo-Austrian Bank (a) (see Chapter II) (Controls Anglo-Czech Bank)

*Principal English Joint Stock Banks—The "Big Five"*³

<i>Barclays</i>	Anglo-Egyptian (a) (94% of share capital)
	Barclays Bank (Overseas) (a)
	Banque du Commerce, Antwerp (c)
<i>Lloyds</i>	British Italian Corporation (c) (associated with Compagnia Italo Britannica)
	Bank of British West Africa (c) (approximately 12% capital)
	London & River Plate Bank (a) (99% of issued capital)
	Lloyds & National Provincial Foreign Bank (b) (50% capital)
	National Bank of New Zealand (c) (appx. 12% of issued stock)
	P. & O. Banking Corporation (helped to form)
	South Russian Banking Agency (b) (one-quarter interest)
	Cox & Company (a) (Latter controls Henry S. King & Co.)

(a) Is controlled by	(a ¹) Controls
(b) Is jointly controlled by	(b ¹) Controls jointly
(c) Is affiliated with, through slight ownership of its stock by	(c ¹) Has a slight ownership of stock in

¹ Key as follows:

² Banks not having important affiliations are omitted; also Scotch and Irish Banks.

³ See also chapter vii.

London Joint City and Midland. None

National Provincial and Union Bank of British West Africa (c) (approximately 11% issued capital) (allied with Standard Bank of South Africa)

Lloyds & National Provincial Foreign Bank (b)
(50% of capital)

P. & O. Banking Corporation (helped to form)

Westminster Bank Bank of British West Africa (c) (approximately 11% issued capital) (affiliated with Standard Bank of South Africa)

British Italian Corporation (c) (associated with Compagnia Italo Britannica)

London County Westminster & Parr's Foreign Bank (a)

P. & O. Banking Corporation (helped to form)

Royal Bank of Canada (c) (approximately 5% capital)

South Russian Banking Agency (b) (one-quarter interest)

Other English Joint Stock Banks

Glyn, Mills, British Overseas Bank (b)

Currie & Co. Holt and Company (a)

Williams, Deacons British Overseas Bank (b)

Bank London & Brazilian Bank (working arrangement)

African Banks

Anglo-Egyptian Bank Barclays (a¹)

Bank of British Lloyds (c¹)

West Africa National Provincial & Union (c¹)

Standard Bank of South Africa (c¹)

Westminster (c¹)

Standard Bank of South Africa Bank of British West Africa (c)

Key:

(a) Is controlled by

(a¹) Controls

(b) Is jointly controlled by

(b¹) Controls jointly

(c) Is affiliated with, through slight ownership of its stock by

(c¹) Has a slight ownership of stock in

Banks Operating in Certain Foreign Areas

<i>Anglo-Austrian</i>	Bank of England (a ¹) Anglo-Czech (a)
<i>Anglo-Polish</i>	British Overseas Bank (a ¹)
<i>Anglo-South American Bank</i>	Banco de A. Edwards y Cia (a) (60% of stock) Banque Generale Belge (c) British Bank of South America (a) (99% of capital) British Overseas Bank (b) Commercial Bank of Spanish America (a) (90% of capital)
<i>British Bank of South America</i>	Anglo-South American Bank (a ¹)
<i>British Italian Corporation</i>	Compagnia Italo Britannica (a) (identical in- terests) 23 leading British Banks among shareholders, including London County Westminster & Parrs, & Lloyds. (Originally backed by the British Government until Dec. 1921)
<i>Commercial Bank of Spanish America</i>	Anglo-South American Bank (a ¹)
<i>London and River Plate Bank</i>	Lloyds (a ¹) National Bank of Scotland (close association with)
<i>P. and O. Banking Corporation</i>	Lloyds London County Westminster & Parrs National Provincial & Union P. & O. Steamship Navigation Co. (Formed under auspices of above) Allahabad Bank (a) (95% of ordinary capital)

Key:

- | | |
|--|---|
| (a) Is controlled by | (a ¹) Controls |
| (b) Is jointly controlled by | (b ¹) Controls jointly |
| (c) Is affiliated with, through
slight ownership of its
stock by | (c ¹) Has a slight ownership of
stock in |

Banks Organized to Promote Foreign Trade Generally

<i>British Overseas Bank</i>	Anglo-South American Bank (b ¹)
	Dominion Bank (b ¹)
	Glyn, Mills & Currie (b ¹)
	Charles Hoare & Co. (b ¹)
	Imperial Ottoman Bank (b ¹)
	Northern Banking Company (b ¹)
	Union Bank of Scotland (b ¹)
	Williams Deacons Bank (b ¹)
	Anglo-Polish Bank (a)
	Banque de Bruxelles (exceptional arrangement with)
	Dorpater Bank, Esthonia (c)
	London & Liverpool Bank of Commerce (a)
<i>British Trade Corporation</i>	(Royal Charter, pursuant to recommendations of Board of Trade)
	Anglo-Brazilian Commercial & Agency Co. (b) (B. T. C. holds 50% of share capital)
	Inter-Allied Trade & Banking Corporation (b) (in liquidation)
	Levant Company (b) (B. T. C. holds one-third of capital)
	Merchant Trading Company (b)
	National Bank of Turkey (a) (B. T. C. holds 96% of stock)
	South Russian Banking Agency (b) (B. T. C. acquired one-quarter interest in 1919) (Opera- tions suspended)
	Trade Indemnity Company (a)
	Portuguese Trade Corporation (c)

Key:

(a) Is controlled by	(a ¹) Controls
(b) Is jointly controlled by	(b ¹) Controls jointly
(c) Is affiliated with, through slight ownership of its stock by	(c ¹) Has a slight ownership of stock in

The above table is confined to joint-stock banks registered under English Companies Acts or Royal Charter, and having important foreign affiliations. The lists are therefore quite incomplete, as many banks do not have important enough

foreign connections through stock ownership to warrant their appearing here. Moreover, no reference is made above to the extensive working and agency arrangements overseas, and other measures taken to extend the influence of British banks. For details see the text. This study is not concerned with the very extensive affiliations of British banks organized under Dominion charters.

APPENDIX IV

SECTION A

PRINCIPAL BRITISH INVESTMENT TRUST COMPANIES ORGANIZED ACCORDING TO THEIR MAIN GROUPINGS

Figures for outstanding capital of various kinds are taken from Mathieson's "Stock Exchanges Ten Year Record" (1922).¹ Those starred are companies whose earnings are analysed in chapter XI.

Not all of the companies listed here are, strictly speaking, investment trusts. A few companies doing in part a financing or mortgage business are included in order to keep the groups intact. This exception applies at most to ten or a dozen companies scattered throughout the groups.

1. *The Companies in which Robert Fleming & Company have direct interest.*

	<i>Ordinary Stock or Shares out- standing in 1921 £</i>	<i>Preferred Stock out- standing in 1921 £</i>	<i>Debenture Stock out- standing in 1921 £</i>
* Alliance Trust Co., Ltd.	400,000	1,100,000	
* British Investment Trust Ltd.	800,000	1,200,000	1,635,550
* Caledonian Trust Co.	200,000	300,000	

¹ This publication is entitled, in full, "Stock Exchanges, London and Provincial Ten Year Record", and is compiled by Frederick C. Mathieson & Sons. It contains figures for the more active companies only, or for those whose issues are traded in on the exchanges. Many discrepancies appear when these figures are checked with company reports and in finding the outstanding capital of any trust it is advisable to consult the "Stock Exchange Official Intelligence" (1922), or the latest company reports. Because of the incompleteness of the figures for a number of companies, the separate totals are not given above.

The figures denote merely outstanding capital and should not be taken as identical with nominal, or even issued, capital.

First Scottish American Trust Co. . .	300,000		250,000
Second Do.	400,000		
Third Do.	400,000		
Clydesdale Investment Co.	200,000	300,000	
Investment Trust Corporation	800,000	1,200,000	2,000,000
Metropolitan Trust Co.	400,000	400,000	800,000
Northern American Trust Co.			
Scottish Western Investment Co.	400,000	600,000	720,000
Sterling Trust	1,250,000		
United States & General Trust Corpn.	200,120	299,880	200,000

I. The Mercantile Group.

	Ordinary Stock or Shares out- standing in 1921 £	Preferred Stock out- standing in 1921 £	Debenture Stock out- standing in 1921 £
* The Guardian Investment Trust Co., Ltd.	310,000	310,000	500,000
* The Imperial Colonial Finance & Agency Corporation, Ltd.	179,850		
Law Debenture	300,000	200,000	450,000
London & New York Investment Corporation	100,000	435,500	150,000
* Mercantile Investment & General Trust Co. Ltd.	1,500,000	1,500,000	3,000,000
* New Investment Co., Ltd.	199,804		
* United States & South American In- vestment Trust Co.	500,000	500,000	806,807
* Rock Investment Co.	125,370	124,930	249,800

III. The C. M. Rose Group.

* The Alliance Investment Co. Ltd.	200,000	600,000	302,695
* The American Investment & General Trust Company	500,000	500,000	1,000,000
* The Foreign, American & General In- vestments Trust Co.	750,000	750,000	500,000
* The Foreign & Colonial Investment Trust Company, Ltd.	1,106,755	1,249,292	

IV. *The Lord St. David's Group.*

The Aberdeen Trust Co.			
* The Consolidated Trust Ltd.	126,000	490,000	616,000
The Equitable Trust of London, Ltd.		360,860	
The Gas Water & General Investment Co. Ltd.	224,000	336,000	500,000
* The Government & General Investment Co. Ltd.	75,300	124,500	100,000
* The Governments Stock and other Securities Investment Co. Ltd.	462,500	462,500	925,000
The International Finance Corporation	187,500		187,500
* The Municipal Trust Co. Ltd.	134,070	230,160	383,600
* The Omnium Investment Co.	414,740	414,740	771,956
* The Premier Investment Co., Ltd.	300,000	450,000	750,000
* The Union Commercial Investment Co. Ltd.	100,000	150,000	

V. *The Edinburgh Group.*¹

	Ordinary Stock or Shares out- standing in 1921 £	Preferred Stock out- standing in 1921 £	Debenture Stock out- standing in 1921 £
* The American Trust Co. Ltd.	100,000	100,000	
The British Assets Trust	110,000	550,000	318,365
The British & Foreign Trust Ltd.			
Edinburgh, Dundee & Aberdeen Invest- ments	32,120	48,180	5,000
* The Edinburgh Investment Trust	201,600	252,000	400,000
The Second Do.	200,000	300,000	450,000
* The Third Do.	100,000	200,000	300,000
The Investor's Mortgage Security	400,000	600,000	406,215
The Realisation & Debenture Corpora- tion of Scotland	102,500	60,000	200,000
The Scottish Investment Trust Co. Ltd.	200,000	300,000	480,000
* The Second Do.	191,282	286,923	250,000
Scottish American Investment Co. ...	500,000	1,400,000	793,545
The Scottish & Canadian General In- vestment Co.	100,000	150,000	
Scottish American Mortgage Co.	300,000	971,776	315,270
Scottish Mortgage and Trust Co., Ltd.	273,184	61,930	115,000
United States Investment Corporation	100,000	150,000	135,886

¹ This list is not inclusive of all Edinburgh investment trusts. Several are in groups given above.

[*Miscellaneous Companies.*

	<i>Ordinary Stock or Shares out- standing in 1921</i>	<i>Preferred Stock out- standing in 1921</i>	<i>Debenture Stock out- standing in 1921</i>
	£	£	£
<i>1) Robert Benson & Co. Group.</i>			
* The Charter Trust & Agency Ltd.	500,000	500,000	
* The Merchants Trust Ltd.	687,500	687,500	1,330,000
<i>2) W. S. Poole & Sir George Touche Group.</i>			
* The Industrial & General Trust Ltd.	100,000	1,100,000	1,686,235
* The Second Industrial Trust Ltd.	300,000	206,680	
* The Trust Union Ltd.	298,670	297,350	300,000
The Trustees Corporation	525,000	525,000	700,000
<i>3) Sir Vesey G. M. Holt Group.</i>			
* Anglo-American Debenture Corp. Ltd.,	350,000	474,331	632,799
* Railway Debenture & General Trust Co., Ltd.	500,100	500,100	1,048,464
* Railway Share Trust & Agency Co. Ltd.	400,000	377,040	254,462
<i>4) Paul & Williamson Group.</i>			
The Scottish Northern Investment ..			1
The Second Do. Trust ..			
<i>5) Sir John R. Ellerman Group.</i>			
* Brewery & Commercial Trust Ltd.	137,440	82,460	
* Debenture Securities Investment Com- pany, Ltd.	303,000	202,000	
Loudon General Investment Trust Ltd.	174,700	174,700	
<i>6) Sir Henry Seymour King Group.</i>			
* Indian & General Investment Trust, Ltd.	100,600	140,400	250,000
* International Investment Trust, Ltd. .	400,000	600,000	750,000
<i>7) Nathaniel Spens Group.</i>			
The City Property Investment Trust ..	24,771	120,880	
* Railway Investment Co., Ltd.	1,700,000	1,700,000	
<i>8) James Anderson Group</i>			
* River Plate & General Investment Trust Co., Ltd.	275,000	275,000	250,000
River Plate Trust, Loan & Agency	800,000	2,821,500	

VI. *Miscellaneous Companies. (contd.)*

	Ordinary Stock or Shares out- standing in 1921 £	Preferred Stock out- standing in 1921 £	Debenture Stock out- standing in 1921 £
<i>(9) Miscellaneous Companies.</i>			
Beaver Trust, Ltd.			
British Steamship Investment Trust, Ltd.	1,800,000	300,000	200,000
Canadian & Foreign Investment Trust	150,000		
Egyptian & Foreign Trust, Ltd.	200,000		
*General & Commercial Investment Trust Co., Ltd.	300,000	300,000	300,000
*General Investors & Trustees, Ltd.	300,000	300,000	200,000
Glasgow American Trust ^a Co.	72,000	72,000	23,000
*London & South American Investment Trust, Ltd.	500,000		
*London & Colonial Investment Cor- poration, Ltd.	121,614	121,614	
*London Scottish American Trust, Ltd.	500,000	500,000	632,197
*London Trust Co., Ltd.	375,000	525,000	937,856
People's Trust Co., Ltd.			
Rio Claro Railway & Investment Co., Ltd.	1,971,871		600,000
Traction & Power Securities Co., Ltd.			
United Discount & Securities Co., Ltd.			
*United States Debenture Corpn.	300,000	375,000	1,050,000

SECTION B

Approximate outstanding capital, debenture and share, of the principal British Investment Trusts. Figures are for the companies of Section A. Some fifteen of the latter do not enter the 1912 figures.

	1912 £	1921 £
1 Ordinary Stock and Shares	21,000,000	32,000,000
2 Preferred Stock and Shares	26,000,000	34,000,000
3 Debentures and Debenture Stock .	28,000,000	34,000,000
4 Total outstanding capital	<u>75,000,000</u>	<u>100,000,000</u>

5. Average Ordinary Stock	346,000	415,000
6. Average Preferred Stock	411,000	441,000
7. Average Debentures	443,000	444,000
	<hr/>	<hr/>
8. Average Total outstanding capital	1,200,000	1,300,000
	<hr/>	<hr/>

SECTION C

A few Investment Trusts concentrating their interests in certain areas or industries. (For source of more detailed list, see concluding note to Section E.)

Rubber and Tea.

Anglo Straits Rubber and General Trust, Ltd.
 British North Borneo Rubber Trust, Ltd.
 Equatorial Rubber Trust, Ltd.
 Hevea Rubber Trust, Ltd.
 Operators' Trust, Ltd.
 Rubber Plantations Investment Trust, Ltd.
 Scottish Tea and Rubber Trust Co., Ltd.

Rails, Electric Power and Tramway Companies.

Callenders Share and Investment Trust, Ltd.
 Central Bahia Railway Trust.
 Northern American Trust Co., Ltd.
 Railway Investment Co., Ltd.
 Railway Share Trust and Agency Co., Ltd.
 Rhodesia Railways Trust, Ltd.
 South American Assets Co., Ltd.
 Traction and Power Securities Co., Ltd.

Mines.

Barrier and General Trust, Ltd.
 Mining and General Trust of Canada, Ltd.
 Mining Investment Company of Glasgow, Ltd.

Oil.

Oil Development Trust, Ltd.
 Oil Trust, Ltd.

By far the larger number of such companies is in the "Financial, Land, and Investment" Section of the Stock Exchange Intelligence.

SECTION D

A FEW INVESTMENT TRUSTS ORGANIZED FOR THE PURPOSE OF
EFFECTING CERTAIN FINANCIAL REARRANGEMENTS*(Detailed information from sources cited below)*

Callenders Share and Investment Trust, Ltd.
 Electrical and Industrial Investment Company.
 Lake View Investment Trust.
 Mexican Central Railway Securities Company.
 Sterling Trust.
 Stock Conversion and Investment Trust.

SECTION E

A FEW TYPICAL TRUST COMPANIES DOING IN PART OR WHOLE A
FINANCING BUSINESS

African City Properties Trust, Ltd.
 British Canadian Trust, Ltd.
 British Foreign & Colonial Corporation. (No debentures)
 Anglo-Scottish Trust. " "
 Atlantic Trust. " "
 British & General Debenture Trust. " "
 British Empire Trust Co. " "
 British Maritime Trust, Ltd.
 Debenture Corporation.
 Eastern International Rubber and Produce Co.

(No debentures)

(In 1920 the Articles were altered so as to enable proceeds from sale of investments to be apportioned between capital and revenue instead of crediting the whole sum to investment Reserve Account. The business is therefore, divided into two distinct parts—(1) investment and trust; (2) general.)

Law Debenture Corporation.
 London Maritime Investment Company. (No debentures)
 North of England Trustee Debenture & Assets Corporation, Ltd.

Orient Trust, Ltd. (No debentures)
South African & General Investment & Trust Co. Ltd.
South American Assets Co., Ltd.

(For further companies, see lists in Stock Exchange Official Intelligence, either under "Financial Trusts", or "Financial, Land, and Investment Companies". From the same source, details concerning date of organization and outstanding capital can be obtained.)

Most of the above companies are new and have not yet issued debentures. There are in all from 100 to 150 active companies, of the kind which are not strictly investment trusts.

APPENDIX V

CHRONOLOGICAL TABLE OF ORGANISATION OF LEADING BRITISH INVESTMENT TRUSTS

<i>Year of Registration</i>	<i>Company</i>	<i>Outstanding Capital</i>	
		<i>(Ordinary and Pre- ferred) *</i>	<i>Outstand- ing De- bentures</i>
		£	£
1863	International Financing Society	187,500	187,500
1871	Government Stock and other Securities Invest- ment Co., Ltd.	925,000	925,000
1873	Railway Debenture and General Trust Co., Ltd. The Scottish American Investment Co.	1,000,000 2,100,000	1,000,000 1,107,000
	Total for year	3,100,000	2,107,000
1874	The Scottish American Mortgage Co.	1,500,000	450,000
1879	American Investment & General Trust Co., Ltd. First Scottish American Trust Co., Ltd. Foreign & Colonial Investment Trust Co., Ltd. Municipal Trust Co., Ltd. Second Scottish American Trust Co., Ltd. Third Scottish American Trust Co., Ltd.	1,000,000 300,000 2,357,000 364,000 400,000 400,000	1,000,000 250,000 384,000 350,000 350,000
	Total for year	4,821,000	2,334,000
1881	Railway Investment Co., Ltd. The River Plate Trust, Loan & Agency Sterling Trust, Ltd.	3,400,000 2,800,000 1,250,000	 818,000 1,608,000
	Total for year	7,450,000	2,426,000

* Figures from Stock Exchange Official Intelligence 1922 given to nearest thousand.

1883	Foreign, American & General Investment Trust Company, Ltd.	1,500,000	500,000
1884	Mercantile Investment & General Trust Co., Ltd.	3,000,000	3,000,000
1886	United States & S. American Investment Trust Co. Ltd.	1,000,000	807,000
1887	Army & Navy Investment Trust Co., Ltd.	560,000	400,000
	British Steamship Investment Trust, Ltd.	2,100,000	200,000
	Omnium Investment Co., Ltd.	829,000	772,000
	Scottish Investment Trust Co., Ltd.	500,000	250,000
	The Trustees Corporation	1,050,000	800,000
	Total for year	5,039,000	2,422,000
1888	Alliance Trust Co., Ltd.	1,700,000	2,566,000
	Bankers' Investment Trust, Ltd.	1,800,000	900,000
	General & Commercial Investment Trust Ltd.	600,000	300,000
	Guardian Investment Trust Co., Ltd.	620,000	500,000
	Government & General Investment Co., Ltd. ..	200,000	137,000
	International Investment Trust, Ltd.	1,000,000	750,000
	Investment Trust Corporation, Ltd.	2,000,000	2,000,000
	Railway Share Trust & Agency Co., Ltd.	777,000	254,000
	Realisation & Debenture Corporation	402,500	379,000
	River Plate & General Investment Trust Co., Ltd.	550,000	250,000
	Total for year	9,649,500	8,036,000
1889	Alliance Investment Co., Ltd.	800,000	303,000
	British Investment Trust Co.	2,000,000	2,000,000
	Consolidated Trust, Ltd.	616,000	616,000
	Edinburgh Investment Trust, Ltd.	840,000	400,000
	Gas, Water & General Investment Trust, Ltd.	500,000	500,000
	Indian & General Investment Trust, Ltd.	250,000	250,000
	Industrial and General Trust, Ltd.	2,200,000	1,686,000
	The Law Debenture Corporation	952,000	450,000

	London & New York Investment Corpn., Ltd.	534,500	150,000
	London General Investment Trust, Ltd.	350,000	
	London Scottish American Trust, Ltd.	1,000,000	632,000
	London Trust Co., Ltd.	900,000	938,000
	Merchants Trust, Ltd.	1,375,000	1,330,000
	Second Scottish Investment Trust Co., Ltd. ..	478,000	272,000
	United States Debenture Corporation	1,575,000	1,050,000
	Total for year	14,430,500	10,577,000
		<hr/> <hr/>	<hr/> <hr/>
1890	Anglo-American Debenture Corpn., Ltd.	824,000	633,000
	Brewery & Continental Plantations Trust, Ltd.	220,000	11,000
	The City Property Investment Co.	155,000	
	Imperial Colonial Finance & Agency Corpn. Ltd.	181,000	
	United States & General Trust Corpn., Ltd. ..	500,000	200,000
	The United States Investment Corpn.	250,000	234,000
	Total for year	2,130,000	1,078,000
		<hr/> <hr/>	<hr/> <hr/>
1891	The Investors Mortgage Security	1,000,000	772,000
1892	Premier Investment Co. Ltd.	750,000	750,000
1893	New Investment Co., Ltd.	200,000	
1895	Debenture Securities Investment Co., Ltd.	505,000	
1898	The British Assets Trust	700,000	411,000
1899	Metropolitan Trust Co., Ltd.	800,000	800,000
1902	American Trust Co., Ltd.	200,000	178,000
	Second Edinburgh Investment Trust, Ltd.	500,000	450,000
	Total for year	700,000	628,000
		<hr/> <hr/>	<hr/> <hr/>

205	Egyptian & Foreign Trust, Ltd.	200,000	75,000
	Trust Union, Ltd.	600,000	300,000
	Total for the year	800,000	375,000
206	Equitable Trust of London, Ltd.	561,000	
207	Charter Trust & Agency, Ltd.	1,000,000	91,000
	General Investors & Trustees, Ltd.	600,000	200,000
	The Scottish Western Investment Co.	1,000,000	931,000
	Total for year	2,600,000	1,222,000
208	Scottish Northern Investment Trust, Ltd.	500,000	473,000
209	Canadian & Foreign Investment Trust, Ltd. ...	150,000	
	London Scottish Investment Trust, Ltd.	27,000	
	Total for year	177,000	
210	British & Foreign General Securities & Invest- ment Trust, Ltd.	300,000	
	Caledonian Trust Co., Ltd.	500,000	500,000
	London & Colonial Investment Corpn., Ltd. ..	243,000	
	Scottish & Canadian General Investment Co., Ltd.	250,000	85,000
	Second Scottish Northern Investment Trust Ltd.	300,000	281,000
	Total for year	1,593,000	866,000
211	Aberdeen Trust Co., Ltd.	206,000	2,000
	Second Industrial Trust, Ltd.	507,000	132,000
	Third Edinburgh Investment Trust, Ltd.	300,000	300,000
	Total for year	1,013,000	434,000

1912	Rio Claro Railway & Investment Co., Ltd.	1,972,000	600,000
	Rock Investment Co., Ltd.	250,000	250,000
	Total for year	2,222,000	850,000
1913	The Clydesdale Investment Co.	500,000	354,000
	London & S. American Investment Trust, Ltd.	500,000	
	Total for year	1,000,000	354,000
1914	Glasgow American Trust Co., Ltd.	144,000	
	Union Commercial Investment Co., Ltd.	250,000	
	Total for year	394,000	
1920	Lake View Investment Trust, Ltd.	413,000	

INDEX

- Acceptances, 21n., 82n., 99-102.
(See also under the separate banks.)
- Accepting Houses (and Merchant Banks), 21, 102-5, app. ii. (See also "Private Houses".)
- Affiliations (see also "Amalgamations"); among British Banks, app. i, iii; foreign, ch. vii, pp. 93-99
- Agency (see also separate Banks) arrangements with Banks, 100-101; foreign, 80-92
- Amalgamations: among British Banks, 24-28; summary figures, 27-28, 32-30, app. i, iii.
- Anglo-Austrian Bank, 29
- Anglo-Baltic and Mediterranean, 44
- Anglo-Brazilian Commercial & Agency Company, 50-57
- Anglo-Czecho-Slovakian Bank, 29
- Anglo-Egyptian Bank, 94, app. ii, iii.
- Anglo-Polish Bank, 76-77, app. iii.
- Bank of England, 11-12, 28-29; Exchequer and Bank, 12-17
- Bank of British West Africa, 96, 97, 99, app. iii.
- Bank shares, 30-32
- Barclays (see also "Big Five"), 87, app. i-iii; foreign affiliations of, 94-95
- Barclays (overseas) Bank, 94
- "Big Five", 17-19, 21, app. i-iii; branches (foreign), ch. vii, p. 80-92, app. iii; foreign policies of, ch. vii; reserves, 80-88
- Bill Brokers (see Discount Houses)
- British Bank for Foreign Trade, 44
- British & Foreign Mercantile Bank, 44
- British Italian Corporation, 44-47
- British & North European Bank, 44
- British Overseas Bank, ch. vi, app. iii.
- British Shareholders Trust, 23
- British Trade Corporation, ch. iv, app. iii.
- British Trusts Association, 132-134
- Capital Issues (in New York and London), 23
- Chronological Table: of Centralisation Movements among British Banks, app. i; of Organisation of British Investment Trusts, app. v.
- Classification (of British Banks); according to experience in foreign trade financing, 49-50; technical, app. ii.
- Colonial Banks, app. ii.
- Commercial Bank of the Near East, 44
- Commercial Bank of Siberia, 41n.
- Compagnia Italo Britannica (see British Italian Corporation)
- Competition, (Limits of, between Joint Stock Banks and Private Houses), ch. vii, sec. v
- Correspondents (foreign), 86-92. (See also separate Banks.)
- Cox & Co., 92n., 96, app. i, iii.
- Cox & Co. (France), 94n.
- Credits Insurance, ch. v.
- Debentures, 128-129, 140-145, 180-181, 192
- Departments (Overseas), 92-93, ch. vii, sec. iv.
- Directorates (Interlocking), 95, 97, 99, 120
- Discount Houses, 19-20, app. ii.
- Discount Market, 20

- Dominion Banks, app. ii
Dorpater Bank, 70-77
- Exchange (see Foreign Exchange)
Exchequer: Bank of England (relations with), 12-17; policy during recent years, 15-17
Export Credits Act, 41-43
- Financial Trusts (see Investment Trusts)
Financing Companies, 110-113, 124, app. iv, secs. c, d, and e.
Fleming (Robert) & Co., 132, app. iv.
Floating Debt, 13-17
Foreign Exchange, 80, 99, 102. (See also "Acceptances".)
Foreign Interests: of the "Big Five", ch. vii, sec. 3; general, app. iii.
- Guarantees: in Export transactions, 41-43, 61-64; in connection with Trade Facilities Act, 43
- Hambros Bank, 44, 48
- Insurance: credits, ch. v; versus guarantees, 61-64
Intelligence Work: of British Overseas Bank, 78-79; importance of, 91
Inter-Allied Trade and Banking Corporation, 58
Investment Trusts, part iii, ch. viii, app. iv, v; Accounting methods, ch. xii; capitalisation, ch. viii, ix, sec. ia, ch. x, app. iv; characteristics and purposes, ch. viii; chronological table of organisation, app. v; conclusions concerning, 193-197; debentures, (see under "Debentures"); distribution of Investments, ch. ix, sec. id; export of capital, ch. ix; earnings, ch. xi; Edinburgh trusts (history of), ch. xiii; Financial status, ch. xi, pp. 177-178; groups, app. iv; History, 181-185; limitation of investments, ch. ix, sec. ib; sale of securities, ch. ix, sec. ii; Scottish and English companies contrasted, 185-186; shifting of holdings, 186-191; taxation, 164-166; underwriting, ch. ix, sec. v.
Issues (capital) New York and London, 23
Issuing Houses (see also "Private Houses"), 22, app. ii.
Issuing, 22, 104
- Joint Stock Banks (see also "Big Five" and separate Banks, etc.), 17-19, app. iii, ii, i.
- Legal Status of British Private Banks, etc., app. ii, part b.
- Levant Company, 57-58
Lloyds (see also "Big Five"), 87; foreign affiliations of, 95-97
Lloyds and National Provincial Foreign Bank, 95-96
London County, Westminster & Parr's, (see Westminster Bank)
London County Westminster & Parr's Foreign Bank, 93, 98
London Joint City & Midland (see also "Big Five"), 86-89
London & Eastern Trade Bank, 44
London & Liverpool Bank of Commerce, 84n.
London & River Plate Bank, app. iii, p. 96
- Merchant Bankers (see also Acceptance Houses and Issuing Houses), app. ii.
Merchant Trading Company, 59
- National Bank of New Zealand, 96
National Bank of Turkey, 58
National Provincial & Union (see also "Big Five"), 87; foreign affiliations of, 97
New Banks (formed for Foreign Trade Financing), 43-48
Note Issues (of Provincial Banks), 26-27
- Peninsular & Oriental Banking Corporation, 44, 47-48
Policies (Credit Insurance Forms), 65-69

- Portuguese Trade Corporation, 58-59
- Premiums (on Credits Insurance), 69-71
- Private Houses (issue and acceptance), 21-22, app. ii; conditions of competition with, ch. vii, sec. v; fields of separate firms, 102-105
- Rates: control by Bank of England, 11-17
- Rate Making (for Credits Insurance). (See "Premiums")
- Reserves: of Bank of England, *supra*; of "Big Five", 87-88; "Inner", 49, ch. xii, xiii.
- Resources: of British Banks, 33-36, app. ii.
- Royal Bank of Canada, 99
- Shares (Bank) (See Bank Shares)
- South Russian Banking Agency, 58
- Tap and Tender Rates. (See Floating Debt)
- Taxation (effects of Foreign), 93, 166
- Trade Indemnity Company, 59
- Trade Facilities Act, 41-43
- Treasury (See "Exchequer")
- Treasury Bills (See "Floating Debt")
- Treasury Bonds, 16-17
- Trust Company (and Investment Trust contrasted), 109-110
- Underwriting, 22, 103-105, 147, ch. ix, sec. v.
- Ways and Means Advances (See "Floating Debt")
- Westminster Bank (see also "Big Five"), 87; foreign affiliations of, 98-99
- Western Bank, 44

VITA

THE author of this study was born in Athens, Pennsylvania, in 1893. After graduating from the High School of East Orange, New Jersey, in 1911, he pursued under-graduate work in Hillsdale College, Michigan, and later in Columbia College, from which he received the degree of A. B. in 1915. His post-graduate work in economics was completed under the Faculty of Political Science, Columbia University where he attended the seminars of Professors Seligman, Mitchell, and Seager.

He has been an instructor in economics, Columbia University, Assistant Director of the Bureau of Foreign and Domestic Commerce and American Trade Commissioner assigned to foreign financial investigations for the Department of Commerce. His writings include articles in the *Survey*, the *Nation*, *Travel*, and the *Journal of the American Bankers Association*, as well as numerous bulletins for the Department of Commerce.