

LEGISLATIVE ASSEMBLY.

We, the undersigned, members of the Joint Committee to which the Bill to constitute a Reserve Bank of India was referred, have considered the Bill and have now the honour to submit this our Report, with the Bill as amended by us annexed thereto.

2. We first met in Simla on the 19th September, 1933, to elect our Chairman and settle some preliminary points of procedure. We then met in New Delhi and sat continuously from the 23rd October until the 16th November, 1933. We examined a number of witnesses and we take this opportunity of thanking them for the readiness with which they accepted our invitation and undertook long journeys at short notice to appear before us. Their evidence has been of very great help to us and has enabled us to suggest a large number of amendments in the Bill which we hope will ensure the smooth working of the new Bank, and prove beneficial to the general interests of the country.

3. We deal below with the Bill clause by clause referring to each clause by its original number. In the Bill, however, we have renumbered the clauses and, for convenience, the original numbering has been reproduced in the margin of the Bill as now printed.

Preamble.—We have made a verbal alteration to indicate more definitely what we consider to be the main purposes of the Bill.

Clause 1.—Although we agree that no specific date can be inserted for setting up the Bank, we desire to represent strongly to the Government that the Bank should be set up with all possible speed.

We have substituted the words "This Act" for "Chapter III" in sub-clause (4) because we do not see any reason why the other Chapters of the Bill should be treated differently from Chapter III.

Clause 2, sub-clause (b).—We considered whether it was necessary to frame a more comprehensive definition of "bank note" but decided that this was unnecessary and that the definition might be omitted.

Sub-clause (d).—We are of opinion that investments of external assets should be confined to Government securities of the United Kingdom and that purchases of foreign currency should be restricted to sterling. We have modified clauses 17 and 33 accordingly. The definition of sterling standard countries therefore becomes unnecessary.

Sub-clause (e).—We have altered the definition of "provincial co-operative bank" because the wording of the original Bill would not have covered the special conditions as regards co-operative banks in the United Provinces.

Clause 4, sub-clause (1).—In order to ensure that the shares of the Reserve Bank shall be widely held we recommend that the nominal value of each share should be reduced from Rs. 500 to Rs. 100.

Sub-clause (2).—It was represented to us that shares should not be allowed to be transferred from one register to another because this might lead to certain registers being denuded of a large number of shares, thus leaving the holders of a comparatively small number of shares to elect representatives to the Local Board and thereby to the Central Board. We have come to the conclusion that the advantages of free marketability are so great that transfers from one register to another should be freely allowed. We further consider that a contingency such as that referred to is extremely unlikely to arise and that a majority of the shares of the Reserve Bank when once allotted will be firmly held as a lock up investment by the original holders. If, contrary to our expectations, it is found that one register is accumulating a large number of shares while another is being denuded by a really substantial percentage, the Government should consider the question of bringing forward suitable amending legislation in order to rectify the position.

Sub-clause (3).—As regards the provisions of this sub-clause, while we are prepared to accord full equality of treatment to United Kingdom British subjects so long as they are normally resident in India on the ground that the United Kingdom Government gives the same reciprocal treatment to Indians resident there, the case is different as regards those Dominions which in various ways apply discriminatory provisions to the Indian subjects of His Majesty. We feel that every occasion should be taken to assert the principle that the citizens of such Dominions should not be allowed equal privileges in India so long as their Governments maintain any measure of discrimination against Indians, and we have taken the opportunity of this particular Bill to give effect to this principle by recommending changes in sub-clauses (3) (b) and (3) (c).

Sub-clause (3) (c).—As regards this sub-clause, it has also been brought to our notice that the limitations on share-holding provided for in sub-clauses (3) (a) and (3) (b) might be defeated if subjects of a foreign country or of a British Dominion which has discriminated against India were to form themselves into a limited company for the purpose of holding shares in the Reserve Bank, and we therefore considered whether some provision should be inserted to the effect that a company registered under the Indian Companies Act, 1913, should only be allowed to hold shares if a majority of the shareholders consisted of persons qualified under sub-clauses (3) (a), and (3) (b). It appeared to us on further examination, however, that any such provision would be extremely difficult to enforce in practice owing to the constant variations which would be possible in the shareholders of any company. On the other hand, the alternative of excluding companies not registered in India altogether would go too far, for there are many private and public companies formed for the purposes of investment which might hold shares in the Reserve Bank. We have not therefore proposed the introduction of any restriction, but

we recommend that the Government and the Central Board of the Reserve Bank should watch carefully for any signs of evasion of the purposes of sub-clauses (3) (a) and (3) (b) by the formation of companies by persons disqualified from holding shares. If any such abuse were to attain serious dimensions we think that the Government should consider amending legislation.

Sub-clause (4).—We have recommended the deletion of the discretionary power proposed to be vested in the Central Board to decline without giving any reasons to allot shares to any applicant or to register any transfer of shares.

Sub-clauses (5) and (6).—We consider that if the scheme for the election of Directors to the Boards of the Reserve Bank is to work satisfactorily the proviso to sub-clause (5) should be deleted and that sub-clause (6) should be amended in the manner suggested by us so as to restrict the sale by the Governor General in Council of unallotted shares only to residents of the areas concerned, except as regards a part of the unallotted shares from the Delhi area which we have treated as a special case.

We have carefully considered the manner of allotment of shares in order to secure as wide a distribution of voting rights as possible and to provide fair facilities for investment by the less wealthy classes. In view of the reduction which we have recommended in the nominal value of each share we propose that five shares should carry one vote. In allotting the shares assigned to a register the Central Board should therefore in the first instance allot five shares to each qualified applicant who has applied for five or more shares. Of the remaining unallotted shares, shares up to the amount of one-half of the balance should be allotted to applicants for less than five shares. The balance still remaining should be allotted to applicants for more than five shares, the distribution being so made as to secure the widest distribution of voting rights.

In order to avoid any possibility of difficulty for the Directors elected to the Boards of the Reserve Bank to acquire the prescribed number of qualifying shares, we recommend that a sufficient number of shares should be reserved by Government to be available for purchase by the Directors and members of Local Boards at par, and that these purchasers should give an option to Government to repurchase such shares at par when they retire.

We attach great importance to securing that as large a proportion of the population of India as possible shall become shareholders of the Reserve Bank and thereby take an interest in its efficient working. We therefore recommend that the widest publicity should be given to the prospectus of the issue of the Reserve Bank shares and that facilities for applications to investors should be given through Government post offices and treasuries.

Sub-clause (5).—We have come to the conclusion that a more equitable distribution of the original capital having regard to the population of the areas concerned be made in the following manner:—

Bombay register—140 lakhs;
Calcutta register—145 lakhs;
Delhi register—115 lakhs;
Madras register—70 lakhs;
Rangoon register—80 lakhs;

We have suitably amended this sub-clause.

Sub-clause (6).—We have split up this sub-clause into a number of sub-clauses. The original arrangement seemed unwieldy.

Clause 5.—It was originally provided in the Bill that any additional shares created should be assigned to the various registers in any manner fixed by the Central Board with the previous sanction of the Governor General in Council and that the latter should also determine the manner in which such additional capital should be allotted to the various areas. We have recommended that the distribution should be in the same proportions as fixed for the original share capital.

In view of the liability that would be placed on the Government by any increase in the share capital of the Bank we consider that the previous approval of the Central Legislature should be obtained to any increase in the share capital.

We have also made certain minor consequential amendments in this clause.

Clause 6.—It was suggested to us that branches of the Reserve Bank should be opened at Lahore, Cawnpore and Karachi. The principal reason for this suggestion was that the banks and the public at those places would not otherwise get the same facilities as would be available at places where there were offices and branches of the Reserve Bank. We wish to emphasise that at places where it has no branch the Reserve Bank must, through its agencies, provide facilities of the same adequacy as are available at places where it has offices or branches. We do not desire to fetter the discretion of the Reserve Bank in regard to the opening of branches as it should be guided in this matter by practical experience. We, however, recommend that in the Agreement between the Reserve Bank and the Imperial Bank of India it should be made clear that the former is not prevented by that Agreement from opening a branch anywhere if it considers this necessary or desirable.

We considered in this connection whether it would be proper to place a statutory obligation on the Reserve Bank to open a branch in London. We have noted that the present tendency among the Central Banks of the world is not to establish branches outside their own countries but to employ other Central Banks as their agents at foreign centres. While we should be unwilling to make any recommendation which could be construed as a failure to appreciate the importance of international co-operation between the Central Banks of various countries, we cannot accept the view that the practice of other countries affords an exact parallel to the particular case of India as regards representation in London. We therefore think that the Board should have absolute discretion to open a branch in London and we recommend that the provision requiring the prior assent of the Governor General in Council should be deleted.

We recommend that, as in the case of the Imperial Bank, the Head Office of the Bank should be migratory, as we consider that otherwise there might be some risk of failure to secure evenly balanced consideration of the varying interests of different parts of the Indian continent. We have therefore amended the clause to provide that there shall be offices in Bombay, Calcutta, Delhi, Madras and Rangoon and have left it to the discretion of the Central Board how they should move their headquarters between them.

Clause 7.—We have made a small drafting amendment to bring out more clearly the intention of this clause.

Clause 8, sub-clause (1) (a).—We consider that one of the most vital points affecting the successful operation of the Bank will be the personality and qualifications of the Governor. It is in our view essential that he should be a man who will command the confidence of the public generally and particularly of banking and commercial circles, so that the policy of the Bank which will largely depend on his guidance, may be accepted as authoritative. We do not consider that these conditions will be fulfilled unless he is a man who has established a position in the business world and we have therefore recommended the insertion of a provision in a new sub-clause (2), to cover appointments made both under clause 8 and clause 15, that he must be a man "of tested banking experience covering a period of at least five years". We have given full consideration to the arguments put forward by the Government members who, while not differing from our general appreciation of the position as stated above, have warned us that the actual definition of the qualifications which we have recommended may, on the one hand, prove ineffective for excluding unsuitable appointments, and, on the other hand, prove unduly hampering to the discretion of the appointing authorities and by their very rigidity exclude a man who might be exactly fitted for the post. They have pointed out to us that commercial banking experience is not necessarily an adequate qualification for the head of a Central Bank, and that recent experience of other countries affords many examples of extremely successful appointments of men who would have been excluded by the words of our proviso. While recognising the force of these arguments, we think it necessary definitely to provide in the statute for the exclusion of certain types of appointment which we should consider undesirable, and we are prepared to face the necessity for amending legislation in the event of our words proving in practice to be unduly hampering.

We do not think it necessary to impose any similar restriction on the selection of the Deputy Governor because these appointments will afford a suitable opportunity for giving practical banking experience to men who are otherwise well qualified.

We consider that the responsibilities falling on the chief executive officers of the Bank will be such that it will from the very outset be necessary that there should be two Deputy Governors and we have amended this clause so as to make their appointment obligatory. Many of us wished to add a provision that of the three highest posts thus created (*viz.*, the

Governor and two Deputy Governors) one at least should be an Indian. We have, however, been informed that the official members in charge of the Bill are prepared to give a definite assurance in the Legislature that the Government will take account of our representations and that it will be its policy in making the first appointments and thereafter that at least one of the three shall be a qualified Indian. We are satisfied with this assurance.

We wish to make it clear that we accept the proposals of this clause as regards the appointment of the Governor and Deputy Governors on the understanding that there must be prior consultation between the Governor General in Council and the Central Board before any recommendation is made—in short that the practice hitherto followed in the case of the appointment of the Managing Governors of the Imperial Bank, to which an exactly similar statutory provision has applied, should be observed.

Sub-clause (1) (b).—We considered whether any addition should be made to this sub-clause in the form of a direction to the Governor General in Council as to the manner in which he should exercise his power of nomination. We have been assured that it is intended that this power shall be used to ensure that territorial or economic interests which have not secured adequate representation in the elections shall have such inadequacy corrected by this means. We do not consider it appropriate to embody in the statute any specific provision for the fulfilment of this intention, but we consider that in the instrument of instructions to the Governor General a passage should be inserted making it clear that this power should be exercised in the general manner indicated above and in particular to secure adequate representation of the interests of agriculture and co-operative banking if these interests had not secured such representation among the elected directors.

Sub-clause (2).—We have made an alteration in the wording here. In view of the Government's interest in the financial earnings of the Bank we consider that it should have a voice in fixing the salaries paid to the chief executive officers.

Sub-clause (4).—We recommend that nominated Directors should hold office for five years in the same way as elected Directors. We consider that the provision in its original form might tend to fetter their independence of judgment. We have proposed an amendment for the same purpose in clause 11.

Clause 9, sub-clause (1) (b).—We have filled in an obvious lacuna in this sub-clause and in the new proviso which we have added, we have indicated clearly for the guidance of the Central Board, the object with which the power of nominating three members to each local board has been conferred on that body.

Sub-clause (2).—We have reduced the value of a voting qualification from two shares of Rs. 500 each to five shares of Rs. 100 each.

We have included a provision for the exercise of shareholders' votes by proxy which is undoubtedly necessary. We have, however, thought it desirable to include certain limitations as to the persons who may hold proxies for this

purpose, and also to introduce words which will make it clear that a shareholder should not be allowed to give a 'general proxy' and that proxies should not be accepted if made out under a general power of attorney.

Sub-clauses (4) and (4A).—We consider it essential for the convenience of the shareholders that the Bank should give adequate notice of elections to the local boards and publish a list of shareholders which should be available on purchase. For the latter purpose the Bank must have power to suspend the registration of transfers for a reasonable period preceding the election. We have made amendments to give effect to these purposes.

The other amendments suggested by us in this clause are of a drafting nature only.

Clause 10, sub-clause (1).—We have omitted certain words in sub-clause (1) (a) and deleted sub-clause (1) (b) which appeared to us to be unnecessary as the qualifications are sufficiently defined by sub-clause (1) (a).

Sub-clause (2).—We have added in this sub-clause certain additional disqualifications taken from the Indian Companies Act which seem to us to be necessary.

We have omitted the proviso to this sub-clause as we considered that the objections to a State official being appointed would be no less than to any other Government official.

Sub-clause (2A).—We have proposed the insertion of a new sub-clause on the lines of a similar provision in the Imperial Bank of India Act.

We have also suggested in this clause certain minor amendments of a drafting nature.

Clause 11, sub-clause (1).—For the purpose explained in our note on clause 8 (4) we have amended the proviso to this clause so as to place nominated directors on the same footing as elected directors.

Sub-clause (2).—We have reduced the value of qualifying shares from Rs. 10,000 to Rs. 5,000. We consider the smaller figure adequate.

We have added a provision at the end of this sub-clause for the vacation of office in the case of continued absence. It is of the highest importance that Directors and Members of Local Boards of the Reserve Bank should be ready to give adequate attention to their responsibilities.

Sub-clause (3).—We have altered the wording of this sub-clause so as to make the provision mandatory instead of discretionary. We have also deleted as unnecessary certain words in this sub-clause regulating the period within which directors should be required to acquire the prescribed number of qualifying shares as the addition which we have suggested in new clause 4 (8) should obviate any difficulty.

Sub-clause (3A).—We have inserted a new sub-clause (3A); we feel that in the interests of the Bank a provision on these lines is desirable.

Sub-clause (4).—We have increased the period within which a member of the Legislature must demit office. To limit this to one month would, in our opinion, present practical difficulties.

Clause 12, sub-clause (1).—We think that the initiative in this matter should come from the Central Board. We have amended the sub-clause accordingly.

Sub-clauses (3) and (4).—We have rearranged the provisions of these sub-clauses as it did not appear to us that in their original form they provided properly for maintaining at all times the representative nature of the elected members of the Central Board. The effect of our proposals is that a vacancy of an elected member in the Central Board will be filled in the following manner: first an election to fill his vacancy in his Local Board and then an election by the newly completed local board to fill the vacancy in the Central Board. In the case of a vacancy of an elected member of a Local Board who is not also a member of the Central Board we consider that it would suffice for such a vacancy to be filled by co-optation until such time as the Local Board is called upon to fulfil its function of electing a member to the Central Board. Before that is done, the co-opted member should be replaced by an elected member.

Clause 13, sub-clause (1).—We have made an amendment consequential to our amendment of clause 6.

Sub-clause (1A).—We think that provision should be made so as to enable any three Directors to convene a meeting of the Central Board. We have added this new sub-clause accordingly.

We considered whether it was necessary to provide what should be a quorum for a Directors' meeting, but have agreed that this matter should properly be governed by regulations to be made under clause 52.

Clause 14.—We have made a consequential amendment corresponding to our amendment of clause 6. We have followed the procedure of the Imperial Bank of India.

Clause 15, sub-clauses (3) and (4).—We have redrafted these sub-clauses on lines which we consider to be a distinct improvement on the original draft of these sub-clauses, by providing both for a more even flow of replacement, and for a quicker replacement of nominated by elected directors.

As regards the general purpose of this sub-clause the non-official members of the Committee have made it clear that they would not consider anything less than 75 per cent. of the voting directors as affording a proper representation of Indians. We have received an assurance on behalf of the Government from the Government members of the Committee that the Governor General in Council will exercise his powers so as to ensure the proper representation of Indians on the first Board.

Clause 17, sub-clause (1).—We think that it is desirable to make it clear that the Reserve Bank can accept money on deposit from local authorities. We have amended the sub-clause accordingly.

Sub-clause (2) (a).—We have added the word "on" to enable the Bank to discount rupee import bills in the event of such instruments coming into existence in the future as contemplated by the Central Banking Enquiry Committee.

Sub-clause (2) (b).—We consider that the period of six months is unduly restrictive in the case of agricultural bills and, following the practice in the United States of America, we have raised the period of six to nine months. We have also omitted the proviso in the original clause as being undesirable in the present conditions of India.

Sub-clause (3).—We have re-arranged this sub-clause and divided it into three sub-clauses 3 (a), (b) and (c). In sub-clause (3) (a) we have restricted the operations of the Reserve Bank to scheduled banks only, as we do not think the Bank would normally require to transact such business with other persons, while we have separately provided in clause 18 for relaxing the restrictions in this sub-clause on special occasions.

On the other hand in sub-clause 3 (b) we have removed any restrictions on the persons with whom the Bank may deal outside India in sterling bills.

We have altered this sub-clause consistently with the recommendation recorded in our note on clause 2 (d) that operations in foreign currency should be restricted to sterling currency of the United Kingdom.

Sub-clause (4).—We consider that in ordinary circumstances dealings under this sub-clause should be restricted to banks, public authorities and Indian States. We have made provision in clause 18 for its extension where this is considered desirable on special occasions.

Sub-clause (4) (b).—We have included silver.

Sub-clause (4) (c).—We have omitted the proviso for the same reasons which led us to omit the proviso to sub-clause (2) (b) of this clause.

Sub-clause (4) (d).—We have omitted this as unnecessary in consequence of the change made in 17 (4) (c).

Sub-clause (4) (e).—We have omitted the proviso because we consider that there is little likelihood of the bill habit developing within five years to such an extent as to make it possible to discontinue this practice within that time.

Sub-clause (5).—We consider that the provision in its original form might lead to undue latitude. In an extreme case it would be permissible for Government to borrow in this way for a period of fifteen months. We consider that such advances should normally, as soon as possible, be converted into treasury bills which should be offered on the open market even though the Reserve Bank may take them up. We have therefore limited the period to three months. We have enlarged the scope of this clause so as to include advances to such Local Governments as may have the custody and management of their own provincial revenues.

Sub-clause (6).—We were informed that bank post bills are not made payable elsewhere than at the office of issue and have amended the sub-clause so as to state the existing practice correctly.

Sub-clause (7).—We consider that in view of the limitation of holdings to securities of the British Government [*vide* our note on sub-clause (2) (d)] this provision is unduly restrictive and that the Bank should be empowered to purchase such securities up to a maturity of ten

years. We must make it clear that our intention is that this should be merely an enabling clause, and that in practice the Bank should arrange for its holding of securities to be as liquid as possible.

Sub-clause (8).—We consider that the sub-clause as originally drafted was unduly restrictive and would not allow sufficient facilities for open market operations by the Bank. We have therefore modified the amounts in the proviso but wish to make the same point here which we did with reference to sub-clause (7), namely, that these figures are to be regarded as a maximum and that in ordinary circumstances the Bank must keep its security holding as liquid as possible and operate well below these limits. We also consider that, in view of recent flotations by provincial Governments, there is no reason for restricting the maturity of securities of a Local Government to ten years. As regards securities of Local Authorities and of States in India we think it better that instead of limiting these according to their maturity, their eligibility should be subject to the general overriding approval of the Government of India which would enable each particular case to be considered on its merits. We have amended the sub-clause accordingly.

We also wish to provide that where a security is fully guaranteed both as to principal and interest by any authority, it shall be considered for all purposes as the equivalent of a security of such authority.

Sub-clause (9).—We have not restricted the operation of this sub-clause to scheduled banks or public authorities because we consider that there might be cases in which such restriction would operate inconveniently in practice. At the same time we wish to make it clear that in our view this power should not be exercised by the Bank so as to compete in its normal business with the commercial business of other banks. It should be the duty of the Government to watch this and to see that the interests of other banks are in practice protected.

Sub-clause (13).—We see no reason why this should be restricted to sterling standard countries. It is desirable to promote co-operation between Central Banks, and we therefore consider that the Reserve Bank should be empowered to act as the agent of any Central Bank, and *vice versa*.

Clause 18.—We have added words to this clause so as to make it clear that although the exercise of these powers should not necessarily be regarded as limited to occasions of so critical a nature as to justify their description as an emergency, nevertheless they are not to be used for the normal operations of the Bank and should be restricted to special occasions. We have also modified it so as to provide for the delegation of the powers of the Board to a committee of the Board as well as to the Governor. We have further thought it desirable to make it clear that although in order to make quick action possible the Board may delegate its special powers under this section to a committee or to the Governor, nevertheless such delegated powers should not normally be utilised without previous consultation with the Board, and that if in cases of special urgency such previous consultation is impossible, the members of the Board shall be informed at once

so that, if they think fit, they can convene a special meeting to have the policy considered and decided.

We have also made amendments consequential on the limitations which we have suggested in our amendments in sub-clause (3) and sub-clause (4) of clause 17.

Clause 19, sub-clause (4).—The word "unsecured" appears to convey very little meaning without qualification and we think that it should be omitted, thus leaving the powers to make loans and advances exclusively regulated by the clauses which give powers in this respect.

Clauses 20 and 21.—We think that it should be made clear that the Governor General in Council should have the final power of decision regarding the terms on which these transactions are to be carried out in the unlikely event of a failure to settle them by agreement. We also consider that the Agreement to be entered into with the Reserve Bank, in view of its importance, should be laid on the table of both Houses.

Clause 21, sub-clause (2).—We have omitted the words "in India". They appear to us to be unnecessary, because in present circumstances neither the Governor General nor Local Governments can, as such, float loans outside India, and, should they acquire this power in the future, an amendment would be necessary, if these words were retained, to have them removed.

Clause 22.—We do not see any need to use the expression "paper money". We also think that the limitation to one year is unduly rigid and might prove inconvenient in practice, while, on the other hand, we cannot see any objection to the Bank being allowed to use Government currency notes until the stocks are exhausted.

Clause 24.—We consider that the clause in its original form was unduly rigid and might have proved inconvenient.

Clause 25.—We have added a few words so as to make it clear that the primary duty for making proposals as to the form and design of notes rests with the Central Board. We consider that sudden and drastic changes in the design and form of notes should not be made.

Clause 27.—There is at present no machinery for the sterilization of notes and it is unlikely that any will be introduced in view of the comparative simplicity of destroying notes and issuing new ones. We have therefore omitted the first part of this clause.

Clause 28.—We have retained this clause pending examination by a small committee of official and non-official experts, which should meet as soon as possible, of the whole question of the rules regarding payment on lost, stolen or mutilated or imperfect currency or bank notes. We may add that if our recommendation that the Reserve Bank should offer free remittance facilities to scheduled banks between their branches is accepted, the question of the rules referred to above may lose much of the importance that is now attached to it.

Clause 30.—We consider that the remedy proposed in the clause in its original form was inappropriate. If the Bank failed to comply with the requirements of Chapter III or of any other provision of the Act and if, in consequence, it was decided that it should forfeit the right of note issue, it is hardly conceivable that it would command the confidence of the public to such an extent as to be allowed to remain in charge of the other functions entrusted to it by the Act. We therefore consider that in such circumstances a complete reconsideration of the position will be necessary. It is not possible to lay down in advance exactly what steps will be necessary nor do we feel entitled to assume that the liquidation of the Bank will necessarily and inevitably be the only possible course. We therefore think that the right form of provision is one which will give the Government power to make emergency arrangements and lay upon it the duty of consulting the Legislature at the first opportunity, after which further and permanent measures can be settled. We have drafted the clause accordingly.

We think it important to record our view that if a failure by the Bank to fulfil its obligations under the Act is the result of a national emergency or a crisis arising from factors over which the Bank had no control, it would be the duty of the Government to use the resources of the State in maintaining the Bank and tiding over the difficulty.

Clause 31.—We have inserted the words "including hundis" after "drafts" in the proviso so as to make the wording of the proviso conform to the wording in the body of the clause.

Clause 32.—The powers of a Presidency Magistrate or a Magistrate of the first class to impose fines are limited to a maximum of Rs. 1,000, so that the wording of the clause as it stood was self-contradictory. We have altered it to make the meaning clear.

Clause 33, sub-clauses (1) and (2).—As we stated in our note on clause 2, sub-clause (d), we consider that the fiduciary external assets should be limited to securities of the United Kingdom.

Sub-clause (2).—Some of us have wished to prescribe (a) for the amount of gold at present held by Government in its currency reserves—namely, about 44½ crores—being retained as a minimum, and (b) for maintaining the gold in the reserves at a minimum percentage of 20 per cent., to the liabilities of the issue department. As against this it has been argued by the Government members (a) that even if it might be thought right as a matter of policy, at least in present circumstances, not to part with any of the present stocks of gold, nevertheless a statutory prohibition against dealing in any way with any of the gold may prove unduly hampering on the Bank and so weaken its power to defend the position in case of need that in practice the limitation might prove to be not an added safeguard for the preservation of the reserves but an actual source of weakness, (b) that any percentage provision is in present circumstances entirely unsuitable, for it might force the Bank actually to buy gold at times when such a purchase would involve in any case a heavy book loss (owing to the fact that gold has according to the accepted provisions of this

Bill to be valued at a price which is about 33 per cent. below its present market value) and possibly an ultimate real loss. Those of us who have supported the former views are prepared to accept a compromise in the form of increasing the minimum to 40 crores and this the Government members have stated that they are prepared to accept as part of a general plan which is in other respects satisfactory.

Sub-clause (3).—We have omitted the words "drawn and" as a consequential amendment to the amendment which we have suggested in 17 (2) (a). We also consider that the limitation of rupee securities might prove unduly restrictive. We have therefore altered the word "less" to "greater" and have made additional provision for a further 10 crores with the permission of the Governor General in Council.

Sub-clause (6).—We have omitted sterling securities of the Government of India. We do not consider that these are assets which could properly form part of the external reserves, and there is no need even for their temporary inclusion.

Clause 35.—We have added a proviso to make it clear that at the time of transfer the whole of the gold coin and bullion held by the Governor General in Council in his reserves should be transferred to the Bank.

Clause 36.—As a result of the provisions of this clause which differ from those of the earlier Reserve Bank Bills, the Government will be left in possession of a large part of the stocks of silver bullion and rupees which it now holds. The policy of disposing of such silver and the methods of accounting for its proceeds involve important issues which the Legislature should be given an opportunity to consider. We have dealt with this question in the final paragraph to this Report.

Sub-clause (1).—We have altered 1/10th to 1/6th because we consider that, particularly in view of the obligations which we are putting on the Bank in clause 39 to make its notes fully convertible into silver rupees, a proportion of 1/10th is too low.

Sub-clause (2).—For the same reason we have altered "may" in sub-clause (2) to "shall".

We have also substituted the words "securities of the British Government" for "securities of sterling standard countries" consistently with our proposals under clause 33.

Clause 37.—The small amendment in this clause is consequential.

We have added a proviso to ensure that the minimum gold holding specified in clause 33 (2) shall in any case be retained as the last reserve. We consider that if the currency reserves had to be drawn upon so heavily that they were reduced to 40 crores a situation would have been created which would in any case require reconsideration of the whole position. In that event we think it of the greatest importance that the Bank should possess at least this minimum holding of gold

as a nucleus of reserves with which to maintain the currency position on the new basis which might be settled after such reconsideration. It is because we consider that a stock of gold will in such circumstances be the most valuable nucleus that we think this minimum should be preserved in the shape of gold rather than in sterling securities. In making this recommendation we do not imply that a provision of this nature, earmarking a certain portion of the currency reserves for special treatment, is necessarily suitable as a permanent provision, and we recognise that it may have to be reconsidered when the occasion contemplated in the preamble to the Bill arises and it is possible to frame measures for establishing the Indian monetary standard on a permanent basis.

Clause 38.—We have omitted the word "new" which seems irrelevant in this context.

Clause 39.—We consider it essential that provision should be made to ensure the legal convertibility of the notes of the Reserve Bank into silver rupees. Even though on theoretical grounds such a provision might seem undesirable, we feel that it is much more important to ensure that confidence in the notes of the new institution will not be endangered.

It is, in our view, implicit in this clause that the Bank will create sufficient branches, offices and agencies throughout the country to enable it to fulfil its obligations to supply different forms of currency so as to meet the reasonable needs of the public.

Clauses 40 and 41.—In accepting the provisions of these clauses we have read them together with the preamble and have accepted the conclusions of the London Committee which we think it advisable to restate—

"In the prevalent state of monetary disorganisation throughout the world, it is impossible to incorporate in the Bill provisions which would necessarily be suitable when monetary systems generally have been recast and stabilised. In these circumstances we consider that the only sound course for India is to remain on the sterling standard. On this basis the exchange obligations incorporated in the Bill must necessarily be in accord with the rupee-sterling ratio existing at the time when the Bill is introduced. This statement does not, however, imply any expression of opinion on the part of the Committee on the merits or demerits of the present ratio. The ratio provisions in the Bill are designed to make it clear that there will not be any change in the *de facto* situation by the mere coming into operation of the Reserve Bank Act".

The Government members have made it clear to us that their intention in introducing this Bill is merely to create the machinery of a Central Bank and not to ask for any special confirmation from the Legislature of the present ratio. We are prepared to accept the view therefore that the ratio issue does not arise in the present Bill.

Clause 41.—We have added the second proviso with a view to protect the interests of the Bank

Clause 42.—This is a wide and very difficult clause as it covers entirely new ground and the conditions in India are so diverse that its provisions must be regarded as tentative and may have to be modified by legislation after practical experience has been gained. We have had particularly in mind a certain modification in the form of an extension of the scope of this clause and for this reason have added a new clause 49A making it incumbent on the Bank to submit proposals for legislation with particular reference to the conditions of indigenous banking.

Apart from this, we consider that the clause in its original form would have been likely to prove unduly rigid in its operation; and in particular that to calculate the average holdings of the scheduled banks from monthly returns might have involved the imposition of penalties in an inequitable manner. We have therefore substituted weekly returns based on the actual figures of a particular working day. We discussed the percentages of $7\frac{1}{2}$ and $2\frac{1}{2}$ with the banking experts. They thought that those proportions were too high but agreed that 5 and 2 would be practicable. We agree and have reduced the proportions accordingly. We further recommend the exclusion of certain liabilities of a more or less technical character from the liabilities on which the minimum deposit has to be calculated. In addition we consider that loans from the Reserve Bank should be excluded from the liabilities as calculated.

In sub-clause (7) we have come to the conclusion that the limit of 3 lakhs is too low and might result in the inclusion of petty firms which do not really fall within the intention of the section. We have therefore increased 3 lakhs to 5 lakhs. We considered whether it would be possible to include together with capital and reserve the amount of deposits as a criterion but came to the conclusion that they are so variable that this would be impracticable. In our view any alteration on these lines must be considered in the light of practical experience. We also consider that when the question of the inclusion of companies is being considered, special care should be taken that companies are not included which are not performing what is really banking business. This should not be difficult for the Bank to decide with reference to each particular case, though it is difficult to draft a general definition of what is banking business and we have not attempted to do so. It may later be found, as a result of practical experience, possible to incorporate such a definition in the statute. We have made consequential amendments in the Second Schedule but we would emphasise the fact that the Schedule is merely illustrative and that it has been compiled on admittedly inadequate material. After the passing of the Bill early intimation should be sent to the companies included in it or to any others the inclusion of which would seem to be indicated by later statistical returns so as to give them ample time to show cause if they consider that they should not be included.

In connection with this clause we have also considered several representations made by banks and other parties. One is that the repayment of these compulsory deposits should be guaranteed by Government. We are not

prepared to recommend such a provision. It was also suggested that savings bank deposits should be reckoned as time liabilities for the purpose of the calculations in sub-clause (1). We consider that the terms on which savings banks are run by various banks vary so widely that it would be impossible to frame any general rule.

In view of the fact that the Reserve Bank will only have a few offices of its own, it will obviously be necessary for the scheduled banks to keep accounts with the Reserve Bank at branches of the Imperial Bank as agents for the Reserve Bank. Balances held on such accounts will of course be taken into account in calculating the amount of any scheduled banks' deposits with the Reserve Bank.

Sub-clause (4).—We are informed that it may be difficult for banks in certain parts of the country which have branches in the interior having no easy communication with their head offices to submit the returns prescribed in this clause within the allotted time. We have provided that in such cases the Reserve Bank should have power to extend the period for the submission of the returns.

Clause 42A.—We consider that a consolidated statement based on the returns collected under clause 42 should be published on the ground that they should be of interest and value to the public. Though the returns of individual banks must obviously be regarded as highly confidential, this consideration does not apply to statistical returns compiled from them all.

To make the returns more complete for statistical purposes we consider that the Government should also furnish the Bank periodically with figures of the amounts of rupee coin, subsidiary coin and notes held at treasuries and sub-treasuries.

Clause 43B.—We considered whether provincial co-operative banks should be included in the Schedule, but came to the conclusion that though there may be considerable advantages in such a course, the time is not yet ripe for it. We consider, however, that if co-operative banks are to be given the facilities indicated in clause 17, they should submit the same returns as those prescribed for scheduled banks so as to enable the Reserve Bank to see that they are maintaining a satisfactory position.

Clause 43 and the Third Schedule.—We have given very careful consideration, after discussion with the representatives of the Imperial Bank and other bankers, to the various issues involved in the Agreement to be entered into between the Reserve Bank and the Imperial Bank of India. We think it necessary to record our views under the following three main headings:—

(a) *Remuneration for handling Government Account.*—On the basis of the figures supplied to us we have reached the conclusion that the terms suggested are reasonable and represent no more than is necessary barely to cover the actual cost incurred by the Imperial Bank in performing these services. We are assured by the Government representatives that these figures

were based on detailed and audited statements supplied by the Imperial Bank and accepted by the Finance Department after careful examination of the method of distribution of over-head charges. We think, however, that it would be satisfactory to the Legislature that the basis on which the costs have been calculated should be independently examined by the Auditor General and that a report by him should be presented by the Government when these provisions of the Bill are under discussion indicating whether in his view the basis on which the costs have been calculated is reasonable and the results of the calculations correct.

(b) *Compensation for the keeping open of branches.*—We consider that the method proposed in the Schedule of keeping specified minimum balances with these branches either free of interest or at concessional rates is not a satisfactory method for fixing compensation under this head, for the value of such balances must vary greatly according to the rates obtainable for the use of money. It appears to us much more satisfactory that a definite annual payment should be made, based on the losses actually incurred. At the same time it would not be justifiable to settle this compensation for a long period on the basis of present results because it must be anticipated that with the general development of banking in India these branches will become progressively more remunerative. We therefore propose a diminishing scale leading to a termination of all compensation after 15 years. We consider that the figures proposed are reasonable on the basis of the statements supplied to us as to the actual cost of maintaining these branches but in this case also we recommend that an independent check on the calculations should be made by the Auditor General and included in the report already referred to.

(c) *Period of agreement.*—We have taken into account the fact that as the compensation for maintaining the unremunerative branches would terminate after 15 years, there would be some advantage to the public in continuing the Agreement beyond 15 years so as to prolong the period during which the Imperial Bank remains under an obligation not to close any of these branches. On the other hand, we consider, first, that a period of 25 years is in any case too long for a commitment of this important nature and, secondly, that inasmuch as the commission payable for handling Government Account is intended to be based on the actual cost of the services rendered, the rate of commission should be open to recalculation at a comparatively early date. Taking all the foregoing considerations into account, we recommend that the Agreement should run for 15 years subject to termination on 5 years' notice given at any time after that period, and that the commission payable for handling the Government Account should be reviewed at the end of ten years and thereafter at five-yearly intervals. It should be made clear that the object of such review would be to settle the actual cost to the Imperial Bank, that the commission should be settled on this basis, and that the calculations shall be subject to expert accounting investigation. In the event of any difference of opinion as to terms arising between the Reserve Bank and the Imperial Bank, we recommend that power to settle the terms finally should be vested in the Governor General in Council.

In view of all the arrangements as regards staff, etc., involved we consider that a period of five years for notice of termination is no more than reasonable.

Lastly, there is one important point which should be made clear in this agreement, namely, that it should not in any way preclude the Reserve Bank from opening its own offices or branches at any place where the Central Board may, as a result of experience, find this to be expedient in the interests of the public notwithstanding the fact that the Imperial Bank has up to then acted as its agent at such places.

Clause 43A and Clause 44 (included in Chapter IV).—We think that the provision in clause 44 for the building up of a Reserve Fund would throw an unnecessarily heavy initial burden on central revenues. At the same time we consider it highly desirable that an adequate Reserve Fund should be available to the Bank in its early years, the main purpose of such a Reserve Fund being to provide a margin against possible depreciation in securities held either in the Issue or Banking departments of the Bank. After careful consideration we have come to the conclusion that the most satisfactory solution would be for Government to start the Bank with the full reserve proposed in the Bill by making over to it the sum of 5 crores in short-dated Government securities—probably treasury bills.

The arrangements for distribution of profits should then provide that this Reserve Fund will always be maintained at the figure of 5 crores.

This change does not involve any substantial recasting of the provisions of the original Bill, all that is necessary being to omit that part of the provisions which covered the period until the reserve had been built up to 5 crores. We have amended the clause accordingly and also included a provision for the initial transfer of the 5 crore Fund by Government, so that this transaction may be covered by a vote of the Legislature.

Clause (44A).—We consider it desirable to make provision for the exemption of the profits of the Bank from income-tax and company super-tax, while at the same time providing that the shareholders will have to pay income-tax on the dividends which they actually receive.

Clause 45.—We think it is desirable that the Bank should have power to discount agricultural bills at concessional rates which may be below the rate for the purchase or rediscount of commercial paper. We have therefore altered the words "minimum rate" in this clause to "standard rate".

Clause 47.—We think that the Governor General in Council should also have discretion to appoint the Auditor General as auditor under this clause if he so desires. We have amended the clause accordingly.

Clause 49.—We have provided that the annual accounts transmitted to the Governor General in Council by the Reserve Bank should be accompanied by a copy of the Directors' report on those accounts.

Clause (49A).—Though we consider it important that a start should be made on the lines indicated in clause 42, we recognise that the developments at this stage must be tentative. We therefore consider it important that a statutory provision should be included, making it incumbent on the Bank to report at the earliest practicable date and in any case within three years and, if necessary, to prepare proposals for legislation so as to include indigenous bankers and other parties doing banking business in India who are not at present included in the Schedule within its scope subject to such restrictions as the Board may consider necessary. In this report it should also include proposals for the closer linking of agricultural enterprise with the machinery of the Reserve Bank, possibly by the establishment of a separate rural credit department.

We also think that in this clause it would be desirable to include a provision embodying in a more concrete form the principle recognised in the preamble, by placing a definite obligation on the Board to put up proposals for a more permanent currency system for India when they consider that the pre-requisites indicated in the preamble have been fulfilled, that is to say, the international monetary position has become sufficiently clear and stable.

Clause 50, sub-clause (5).—We have added this sub-clause to fill up a lacuna in the clause as originally drafted.

Clause 51.—Some of us are of opinion that the Governor General in Council should have power to purchase the shares of the Bank at the end of 25 years if in the interests of the country it is then considered desirable to run the institution as a State Bank.

Clause 51, sub-clause (1).—This sub-clause as originally drafted left it doubtful in whom the power to initiate liquidation proceedings was vested.

Sub-clause (2).—We have added a proviso to limit the amount of the surplus assets which would go to the shareholders in the event of liquidation of the Bank in the early years. We consider that, without some limitation of this nature, the shareholders might, particularly as a result of the proposals mentioned in the note on clause 44 for starting the Bank off with a Reserve Fund of 5 crores, be placed in an unduly favourable position in the event of early liquidation of the Bank. Unlikely though that contingency may be, we have thought it necessary to provide for it. It will be noted that according to the original proposals in the Bill the shareholders would have been entitled to receive 25 per cent. of the 'surplus assets' on liquidation, and as according to the proposals for distribution of profits these surplus assets could hardly have exceeded the maximum amount of the Reserve Fund, namely, the amount of the share capital of the Bank, the shareholders would under the original proposals also have had no expectation of a higher profit on liquidation than 25 per cent; and this position would only have been attained after several years of working.

Clause 52, sub-clause (2) (mm).—We have added the power to make regulations regarding the fees to be paid to Directors and to members of the Local Boards.

Sub-clause (2) (mmm).—We think it desirable to make special provision for regulations regarding the relations of scheduled banks with the Reserve Bank. In particular, it may be found necessary or desirable for the Reserve Bank to call for further information from them.

Sub-clause (2) (mmmm).—Though the management of clearing houses is one of the usual functions of a Reserve Bank, we think that it would be as well to make specific provision for the regulations which the Bank will issue in this matter.

Sub-clause (3).—We have added this sub-clause to make it clear that copies of any such regulations will be available to the public on payment.

4. The Government put before us a memorandum† which we have attached to this Report containing their proposals for dealing with three important matters which were recommended for further consideration in India by the Committee which considered the Reserve Bank proposals in London. These matters are:—

- (1) The method for dealing with the surplus stock of rupees which are at present held in the Government's currency reserves, but which will under the plan embodied in the present Bill be retained by Government.
- (2) The amount of external reserves which should be handed over by Government initially on the formation of the Bank.
- (3) The method for dealing with any profit or loss which may result from a revaluation or a sale of the stocks of gold to be handed over to the Bank by Government.

The first of these questions arises as a result of the general plan embodied in clause 36 of the Bill—the effect of which is that, contrary to the plan embodied in the earlier Bills, Government will retain the responsibility in connection with the silver coinage so that the Bank will not have to carry stocks of silver coin surplus to its own requirements, or be concerned with sales or purchases of silver bullion or any loss which such transactions may involve. While we are prepared to state that we approve of this general plan, we have not had time fully to consider the details of the Government's proposals as regards the methods for dealing with the stocks of silver to be retained by Government nor as regards the matters arising under the other two heads. In the circumstances, as we are bound to present our report on the Reserve Bank Bill by November 20 and shall by that act have completed the function laid upon us by the Legislature in this matter, we can only recommend that the details of the Government proposals should be further studied by the Legislature by such means as it thinks fit.

5. The Bill was published in the Gazette of India dated the 16th September, 1933. We think that the Bill has not been so altered as

to require re-publication, and we recommend that it be passed as now amended.

*GEORGE SCHUSTER.
 *COWASJI JEHangIR.
 *SANT SINGH.
 MOHD. YAMIN KHAN.
 HOMI MEHTA.
 L. HUDSON.
 *G. NARAYANASWAMI CHETTY.
 S. R. PANDIT.
 *S. R. M. ANNAMALAI CHETTY.
 J. S. HENDERSON.
 *S. M. PADSHAH.
 *MAHMOOD SUHRAWARDY.
 CHARANJIT SINGH.
 MOHD. HAYAT NOON.
 *B. K. BASU.
 *NRIPENDRANARAYAN SINHA.
 *MATHURA PRASAD MEHROTRA.
 *S. C. MITRA.
 *BHUPUT SING.
 ABDULLA-AL-MAMUN SUHRAWARDY.
 *MOHD. AZHAR ALI.
 *GAYA PRASAD SINGH.
 *HOSSAIN IMAM.
 NIHAL SINGH.
 *RAM SARAN DAS.
 *VIDYA SAGAR PANDYA.
 *B. DAS.
 *J. B. TAYLOR.

APPENDIX A.

MEMORANDUM BY THE GOVERNMENT REGARDING
DISPOSAL OF SURPLUS SILVER.

In paragraph 21 of the report of the London Committee on Indian Reserve Bank legislation they made certain recommendations regarding the transfer of rupee coin between Government and the Bank which have been embodied in clause 36 of the Reserve Bank of India Bill, 1938, and as regards certain matters arising out of these recommendations the Committee proposed that they should be further examined in India.

(a) Heading (2) of the arrangement recommended was as follows:

"Any surplus of rupees which this arrangement would enable Government to remove from the reserve should be held by Government in a separate account, the silver being held as bullion, not as coin. *Subject to further consideration by the Government of India* any proceeds from the realisation of such rupees should not be used, except for the purpose specified in (3) below."

The purpose thus specified was the "payment of full value" (40 per cent. in external assets) for any further surplus rupees transferred by the Bank to the Government.

(b) The concluding recommendation of paragraph 21 was as follows:—

"We do not propose any alteration in the figure (of external reserves) in the new Bill, but we think that this proportion may not necessarily be adequate and we recommend that the question whether a higher proportion is required at the outset should, before the Bank is set up, be carefully considered by Government in the light of all the prevailing circumstances."

2. In paragraph 25 of their Report they also remarked:

"The possibility would obviously be present that the Bank might gain a large premium on the gold handed over to it by Government. The question as to how such premium should be dealt with, specially in the event of sales being made in the intermediate period pending revaluation of the gold, raises complex practical issues which we have not fully discussed. In principle such profits should belong rather to the Government than to the Bank, but our view is that this unrealised margin should in some way or other be kept available for strengthening the position of the currency reserves. *We recommend that detailed proposals should be worked out by the Government of India for consideration during the passage of legislation on this subject.*"

3. The points thus referred for further examination raise two problems which are closely

connected and which, in the opinion of the Government of India, should be treated together. The following appear to be the main considerations which should be taken into account:

(a) The proceeds of any sales of the surplus silver (to be retained by the Government under the arrangement proposed) and of any surplus realised on the sale or revaluation of the gold (to be transferred to the Bank) would represent assets originally accumulated against the issue of currency and as part of the ordinary currency business of Government. Such assets should therefore be regarded as primarily earmarked for currency purposes.

(b) It does not however necessarily follow that such assets should be directly or immediately absorbed in the currency reserves of the Bank, because—

(i) The Government must retain a separate reserve against the liability imposed upon it to pay full value for further surplus rupees which it may be required to take over from the Bank under the proviso to sub-clause (1) of clause 36 [*cf.* also the recommendation of the London Committee referred to above in paragraph 1 (a)].

(ii) Reasonable account must be taken of the general financial position of the Government which may react on the currency position. Looking at the matter from a practical point of view, it may not be good policy to accumulate excessive funds in specially earmarked reserves, because in the first place this may involve a substantial loss of interest seeing that in normal circumstances it will only be possible to earn a much lower rate of interest on such funds than the Government has to pay on its own public debt, and, in the second place, the general effect on India's credit of repaying outstanding loans may be of greater value than adding to the accumulated reserves (*cf.* as an actual example in the past the repayment by the Government of India from its own resources of the £15,000,000 sterling loan in January, 1932).

(iii) If the Bank is started off initially with reserves in gold and sterling assets which afford amply adequate cover against its issue liabilities, the addition from outside of still further external assets would serve no useful purpose and might even put the Bank into a position of being able with undue ease to expand the currency against rupee assets when that was not justified.

4. The Government of India have carefully weighed the above considerations and I am directed to place the following scheme before the Committee for its consideration:—

(a) The silver which will be retained by Government, whether in rupee coin or bullion, should be regarded as stock purchased by Government from its Currency Department. On

the basis of the accounts of the Currency Department on the 31st August, 1933 (at which date the silver stocks attained the maximum point reached during the current year) Government after handing over 50 crores of rupees to the Bank would retain rupees and silver of a nominal value of 55,41 lakhs. Against this 55,41 lakhs would be set off the value of the assets of the Gold Standard Reserve, 53,33 lakhs, so that the net debt against the silver thus retained by the Government would be the difference between these two figures, namely, 2,08 lakhs.

(b) The proceeds of any sales of silver after the transfer would be credited to a separate fund more or less on the lines of the present Gold Standard Reserve which it is suggested might be called the "Silver Redemption Reserve". This reserve would be invested by Government in its entirety in gold or sterling securities.

(c) The book loss on sales of silver since the commencement of selling operations is approximately 31,63 lakhs*, and this figure must also together with the 2,08 lakhs mentioned under (a) be regarded as a debt incurred against silver. To this debt will also have to be added the full nominal value of any silver rupees returned by the Bank under clause 36(1) of the Bill, while the full nominal value of any rupees sold to the Bank under clause 36(2) will be deducted from it. The loss of 31,63 lakhs already incurred is at present held in a suspense account and it will continue to be so treated. Interest and amortisation provisions against the debt represented by this loss and the 2,08 lakhs balance of silver to be taken over together with any further silver which may be taken over will be made in the manner described in the following paragraphs.

(d) Interest on the outstanding loss which is in fact represented by a corresponding portion of the public debt (namely, treasury bills in the Paper Currency Reserve) is at present met out of the revenues of the Government of India. This should continue both for the outstanding loss and any other additions to the silver debt referred to above, but the Government of India should be allowed to set off the interest which it receives from the investments in the Silver Redemption Reserve. In other words, the interest on this Reserve will not be added to the Reserve but will, as at present, accrue as a receipt to Government revenues.

(e) Provision will also have to be made for the amortisation of the outstanding "silver debt". At present no provision is made for the amortisation of treasury bills held in the Paper Currency Reserve so that in practice there is no amortisation provision for the debt representing losses on account of silver. The Government of India consider that some provision should be made but any plan for this must be dealt with as

*This is not really in the true sense a loss. It is the figure which represents the difference between the price of the silver sold as bullion and the face value of the rupees from which the silver was produced. In order to get a true picture of the position there must be balanced against this nominal loss the profits which the Government originally made when the rupees were put into circulation, from which profits *inter alia*, the £40 millions Gold Standard Reserve was built up.

part of the Government's general plan for Sinking Fund provisions on the public debt—a question which must be dealt with separately.

5. It remains to consider how the funds which would accumulate in the Silver Redemption Reserve should be utilised. The considerations affecting this question have been set out in paragraph 3 above. Weighing up the various considerations, the Government of India consider that it would be a reasonable arrangement to allow the Silver Redemption Reserve to accumulate until it reached a total of 10 crores. Any further receipts should not be separately invested but should be taken direct into Treasury balances to reduce the outstanding "silver debt" described in paragraph 4(c) *i.e.*, to be utilised for the reduction of debt either by the redemption of existing debt or the avoidance of new borrowing. A Reserve of 10 crores in external assets would allow for a return of 25 crores of rupees by the Bank to Government, that is to say the maximum amount which could be returned in five years. This should be adequate for all practical purposes and against locking up funds beyond this reasonable margin must be weighed the consideration mentioned in paragraph 3 (b)(ii) above.

6. As regards the second recommendation of the London Committee [paragraph 1(b)] of this Memorandum, the Government of India do not consider that it would be practicable at present to decide whether and, if so, to what extent the Bank should be provided with external cover in addition to the 50 per cent. indicated in clause 35 of the Bill. It is of course understood that the whole of the Government's gold holding will in any case be handed over. Apart from this, if there should be any margin of other external assets which the Government at the time when the Bank is set up did not consider it necessary to hand over to the Bank and which it would consequently retain for its own purposes, the Government of India provisionally consider that the most suitable alternative method for appropriating any such surplus would be to transfer it as an opening balance to the Silver Redemption Reserve proposed above.

7. As regards the third point in paragraph 25 of the London Report (*vide* paragraph 2 of this Memorandum), the Government of India do not consider it necessary to make any specific proposals regarding the utilisation of any hypothetical profits on the revaluation of gold. Such profits might arise in two ways:

(a) There might be sales, in which case there might be a considerable premium representing the difference between the market price and the statutory price as indicated in clause 33(4) of the Bill.

(b) When the time comes to adopt a permanent currency standard as contemplated in the preamble to the Reserve Bank Bill, the new valuation as compared with the valuation at the old parity as adopted in clause 33(4) might be such as to show either a paper gain or loss.

8. As regards alternative (a), sales are very unlikely and unless they were for a very large amount, the profit on them would not be sufficient to alter the dividend payable to the shareholders, in which case the whole of the profit

on such sales would accrue to Government under clause 44. The Government of India do not consider it necessary to legislate for this highly hypothetical contingency.

9. As regards alternative (b), if there was a revaluation, clause 38 (4) of the Bill would require amendment, in which case it would be open to the Legislature to make a further amendment of the Bill so as to ensure that the whole of the profits or losses on such revaluation would accrue to or be borne by Government. If there were profits, the actual manner in which any such hypothetical profits would be utilised is a still more hypothetical question on which it appears to the Government of India to be even less necessary to formulate any specific scheme. It is obvious that any such paper gain should not be swallowed up in ordinary revenues but

should be devoted to some currency purpose and this most probably would take the form of an additional fortification of the Silver Redemption Reserve. That, however, is a matter which could be left to be decided at the time.

10. The Government of India therefore do not consider that any provision need be made in the present Bill with respect to these recommendations, of the London Committee, but they would suggest that a note might be made in the report, possibly on clause 38(4), on the lines indicated in the preceding paragraph, regarding the utilisation of any book gain or loss on gold, while they would also be glad to have the views of the Committee on the scheme for a Silver Redemption Fund set out in paragraphs 4 and 5 of this Memorandum.

MINUTES OF DISSENT.

I am unable to agree with the Joint Committee in the conclusions they have arrived at on clauses 40 and 41. I do not propose to go into the question of the ratio on its merits. It would be futile to do so, since the Act cannot come into force for a considerable period of time after the Bill is passed by the Legislature. In these difficult times he would be a bold man who would attempt to prophesy what will happen in the world even in a few weeks' time. How is it then possible to fix to-day what the ratio should be about a year hence? Many of us have decided views as to what the ratio should be fixed at to-day, but we are not dealing in this Bill with the situation of the immediate present. This is the spirit in which the London Committee dealt with the question, which is clearly shown by the following sentence:—

"The ratio provisions in the Bill are designed to make it clear that there will not be any change in the *de facto* situation by the mere coming into operation of the Reserve Bank Act".

Do the majority of the Joint Committee want us to believe that the 1s. 6d. ratio is likely to be the *de facto* situation when the Act comes into operation? In the opinion of many well-fitted to judge, there are just as many, if not more, chances of the ratio having to be changed. The retaining in the Bill of 1s. 6d. ratio under present circumstances is in my opinion not carrying out in the spirit the London agreement. I suggest that the rate should be the *de jure* rate of the day before this Act comes into force.

In clause 43 I suggest that the period of the agreement with the Imperial Bank should be ten years subject to termination on five years' notice given at any time after that period. This will give the Imperial Bank an agreement for fifteen years certain.

COWASJI JEHANGIR (Jr.).

16th November, 1933.

We have signed the Report.

We however regret to note (1) that Madras has been assigned shares to the value of only 70 lakhs and (2) that Madras is to have only one Director on the Central Board. As one of the major Presidencies it is entitled to be provided with more capital and to have two Directors.

S. B. M. ANNAMALAI CHETTY.

G. NARAYANASWAMI CHETTY.

S. M. PADSHAH

16th November, 1933.

Clause 8 (1)(a).—We find it necessary to dissent from the proposal that it shall be provided in the Act that the Governor of the Reserve Bank must be a man of "tested banking experience covering a period of at least five years". While we fully endorse what has been said in the main report as to the importance of the Governor being a man who can command the confidence of the business community in India, we feel that the qualifications proposed as actually worded will not necessarily ensure this result and may prove extremely embarrassing in practice. The qualifications and experience required for the head of a Central Bank are quite different from those which are necessarily acquired in commercial banking, while if experience of the latter is the only qualification, a five year period would be quite inadequate. The experience of many countries goes to show that men of quite different training have been selected for and proved successful in central banking, and the present heads of the important Central Banks would have been excluded as ineligible under the qualifications proposed by the Committee.

Clause 33(2) and clause 37.—The recommendations made in the main report and embodied in these clauses as regards the holding of gold in the currency reserves are based on the ideas that gold at present forms the most reliable form of currency reserves, and, that practically the whole of the present stock of gold held by Government ought to be preserved and not dissipated in defending the present sterling standard. While we feel that such ideas have force, and while we recognise the strength of Indian sentiment in this matter, we consider that, so far as statutory provisions are concerned, these should not be so framed as to hamper the discretion of the Bank to utilise its currency reserves in whatever manner may be most effective for maintaining the stability of the currency. In exercising this discretion it would of course be right for the Bank to take account of Indian sentiment, for any disregard of that might react on public confidence the maintenance of which is a vital factor in the security of the position—a factor of perhaps even greater importance than the actual currency reserves. But it is quite a different matter to convert the recognition of these points into a statutory limitation on the Bank's powers. The mere possession of powers even if they may always be kept in reserve is a strengthening factor, and the mere denial of such powers may be a weakening factor. We are prepared, as stated in the main report, to agree to the minimum gold holding being raised to 40 crores as a compromise if thereby agreement can be obtained to a general plan for the constitution of the Bank which is in other respects satisfactory. But we should not, except for this purpose, be prepared to accept this figure which we consider to be an undue limitation on the Bank's discretion, and we must record our dissent from any proposals to go further than this by provisions in clause 37.

GEORGE SCHUSTER.

J. B. TAYLOR.

We, the undersigned Members of the Joint Committee to which the Reserve Bank of India Bill of 1933, was referred, have considered the Bill and the Report, and wish to append the following minute of dissent on the points on which we are agreed, while reserving ourselves to append individual notes on other points.

The proposed Bank should be a State Bank.

During the discussion of the Reserve Bank Bill in 1927-28, the Assembly accepted the principle of a State Bank by passing unanimously section 4 of the Joint Select Committee Bill. This question was again discussed in 1931 by the Central Banking Enquiry Committee; and it also recommended unanimously that the Bank should be a State Bank. (Pages 418-419 of the Report). It is now incumbent on the Government to give a convincing reason for going against the unanimous decision of the Assembly and unanimous recommendation of the Banking Enquiry Committee. It is regrettable that even such of those members of the London Committee as were associated either with the Joint Select Committee of 1927, or the Central Banking Enquiry Committee and were thus committed to a State Bank have not chosen to enlighten the public as to the exact reasons for their present preference for a Shareholders Bank. The country was entitled to expect a clear lead from them. In the absence of such a lead, we find that the new proposal is being placed without the supporters of the Shareholders Bank discharging the onus of proof that lies on them for going against a scheme unanimously approved by the Legislature and strongly supported by all sections of Indian public opinion.

The only two arguments which the Government can advance for changing the unanimous finding are—

- (1) A Shareholders Bank is the only form of bank which will provide Directors from an electorate free from political influence.
- (2) In most countries of the world, Central Banks are Shareholders Bank.

We would like to examine closely both these arguments. The experience about the election of Directorate of Companies clearly shows that shareholders as an electorate do not exercise any material influence. The Directors manage to get themselves re-elected. In fact, they form a coterie and keep perpetual power in their own hands. The coterie is formed by the promoters who nominate the first Directors.

"The Directors practically exercise the right of appointing other Directors and they get their action confirmed or passed by the annual general meeting." This was verified by Sir Osborne-Smith in the following question and answer* with regard to the Imperial Bank:

Q. Do you know of any occasion on which anybody has been elected in a general

* Footnote by the Honourable Sir George Schuster (Chairman).

These discussions were informal conversations which were only loosely recorded, and circulated in order to refresh the memory of members. They have not been checked by those who took part in the discussions and cannot be regarded as accurate records.

GEORGE SCHUSTER.

meeting of a Director without the back-door influence of nomination first by the Directors?

A. I have no recollection of it.

Secondly, the Reserve Bank deals with problems which cannot be fully dissociated from politics and it is impossible to remove political considerations. The Bill itself does not attempt to remove the political influence of the Secretary of State. The Bill really denies the influence of Indian politicians and affirms the influence of the Secretary of State. The Secretary of State represents politics just as much as the future Indian Minister; and hence the substitution of one for the other does not secure the freedom from political influence, which is claimed by the Government. In either case the Secretary of State will have determining voice, but in case of Shareholders Bank, he will be immune from the criticisms of the Indian public and of legislature.

As regards the second argument, there are several countries in the world, notably Australia and Sweden, whose Central Banks are State Banks. During the recent economic perturbances the Governments of many countries were forced to assume greater responsibilities in the currency policies of their countries; and the position of the world is such that no one can safely predict the future trend of monetary policy and the working of the Central Banks. In fact, the theory of Central Banks is in the melting pot; and the other countries may have to follow America in the Government taking active and effective part in the control of their monetary policy. Consequently, the argument in regard to the example of other countries has not much force until the conditions of the world are settled down and we know the nature and significance of the profound changes that are taking place. Even in England, the Conservative Government are finding it necessary to effect changes in the administration of the Bank of England with a view to allow greater voice for the Treasury.

We now put forward the following considerations as positive and definite arguments in favour of a State Bank:—

- (1) It is an admitted fact that the Government is compelled to assume almost entire responsibility in the administration of Central Banks at the time of financial crisis. The Central Bank functions smoothly only during normal times; for normal working, shareholders are as much unnecessary as the State. It is the Governor of the Bank that counts.
- (2) The State Bank will always command greater confidence within a country like India than a Shareholders Bank.
- (3) Almost the entire profit made by the Reserve Bank will be derived from the resources and support of the State; and it is, therefore, desirable that the tax-payers should be benefited to the fullest possible extent from the profits so derived.
- (4) It is an established fact that shareholders do not form a satisfactory electorate. No shareholder residing in mofassil would take the trouble of

spending money in travelling in order to exercise his right of vote. The use of proxies will be unavoidable; and election by proxies does not necessarily represent electorate.

- (5) In the case of a private bank, there will be no machinery to demand and enforce larger recruitment of Indians in the officers and subordinate grades. It is only in the case of a State Bank that Indianisation as a policy can be effectively enforced, as is evident from our experience of Railway Administration.

We regret that the possibility of establishing a bank on the basis of Stockholders Scheme, which was put forward by Mr. S. Srinivasa Iyengar, the Leader of the Opposition in 1927, and approved by Sir Basil Blackett, the then Finance Member, has not been sufficiently explored. It is a scheme about which Sir Basil said that—

“It is one that appeals to the Government and that they themselves are prepared to accept.”

In these days of financial uncertainty, this type of Reserve Bank would best suit the country as it could, at any future date, if and when circumstances demand, be easily converted either into Shareholders Bank or State Bank.

The Stockholders' Scheme is appended hereto. We, therefore, recommend that the Reserve Bank should be preferably an out-and-out State Bank on the model of the Joint Select Committee Bill of 1927 or, in the alternative, a bank on the Stockholder plan indicated above.

In case our proposal for a State Bank is not accepted by the legislature, we insist that following modifications are indispensable:—

Not less than three-fourths of the Directors or members of the Local Boards should be native Indian subjects of His Majesty.

The External Capital Committee, of which Sir Basil Blackett and Sir Charles Innes were members, accepted unanimously this just principle.

The Reserve Bank should establish its own branch in London, which should hold entirely the foreign balances and reserves of the Government of India. (Honourable Mr. Basu and Mr. Ram Saran Das dissent from this.)

We are of opinion that every shareholder should have one vote for each share with a maximum of 10 votes.

Reserve.

In determining the amount of Reserve and especially the nature of external reserve, we should consider three important factors—

1. Paper notes in circulation (amounting to Rs. 180 crores).
2. The silver rupees in circulation, which are really notes printed on silver.
3. Our annual external obligations, which amount roughly to about Rs. 70 crores.

It is difficult to determine exactly the amount of silver rupees in circulation or the exact amount of external obligations; and in view of the fact that the holders of rupees are as much entitled to demand sterling as the holders of the paper notes, and that the external reserve should be large enough to provide for the payment of our external obligations in an year of adverse trade balance, we suggest that the initial external reserve should be 60 per cent. of the liabilities instead of 50 per cent. as suggested in the Bill.

As a result of the Hilton-Young Commission proposals, the External Reserve was to have been Rs. 118 crores. Our present suggestion asks for an external reserve valued, at the outset, at Rs. 106 crores (with gold stocks valued at old parity, i.e., the same rate as in Hilton-Young Report).

As, in connection with the agreement between the Imperial Bank and the Reserve Bank, it has been agreed that the Imperial Bank should offer internal remittances to the scheduled banks from currency chests free of charge, we suggest that, as a result of this step, the scheduled banks should make inter-branch transfers for their constituents free of charge. In other countries, a cheque of any bank is cashed at any other bank without discount. Facilities of this kind will greatly increase the velocity of money in circulation.

For purposes of branch-banking development and to give impetus thereto, the Reserve Bank should maintain a list of approved banks. These approved banks must be confined to banks registered in India and satisfying certain minimum criteria as regards the capital and Balance-sheet position. Any approved bank opening a branch at a centre where there is no branch of an approved or scheduled bank should be entitled to an interest-free deposit of Rs. 3,00,000 from the Reserve Bank for the first two years, and Rs. 2,00,000 for the next two years.

Ratio.

We do not agree with the opinion that the ratio question is outside the province of the Reserve Bank Bill. The Reserve Bill will be responsible for maintaining the exchange within prescribed limits. This responsibility is particularly important in the case of India as she has definite, recurring, large external commitments.

This fact is being fully appreciated in devising the plan for a Reserve Bank for New Zealand. Since England went off gold standard, New Zealand pound has depreciated by 10 per cent. But in planning the scheme of the Reserve Bank, the authorities realised that in view of the Bank having to fulfil the external obligations of the country, the depreciation of 10 per cent. was not enough. It has now been decided to have a further lowering of the ratio by another 10 per cent. In the same way, the ratio is, we are convinced, part and parcel of the proposal to establish the Reserve Bank of India.

In our opinion, the eighteen pence ratio has done great harm to the country. The gravity of the harm done can be realised from the fact that India, which enjoyed, almost uninterruptedly, a favourable balance of trade in merchandise to the extent of about Rs. 80 crores per annum, had only a merchandise surplus of Rs. 3,38 crores in 1932-53.

Out of the normal surplus, India was finding it possible to meet her recurring external obligations and also to import treasure for the requirements of the population. Our foreign commitments are now being met by the export of 'distress gold'. This export cannot continue for long. Unless adequate measures are adopted to restore the favourable balance of trade in merchandise to the level of our foreign commitments, the Reserve Bank will be faced with an embarrassing situation right at the commencement as soon as the exports of gold cease or fall off.

We are definitely of the opinion that in view of the successful way in which countries like New Zealand and Australia have brought about favourable balances of trade by depreciating their currencies, India, too, should lower her ratio before inauguration of the Reserve Bank.

Since September, 1931, pound sterling has been allowed to depreciate to a level which the British Monetary authorities deem suitable in relation to Britain's economic conditions. By linking the rupee to sterling at the same old level, it is assumed that economic conditions are the same in both countries. If this were so, the movements in the Index of wholesale prices in India should correspond to the movements in the Index in the United Kingdom. But actually it is not so. The Index of wholesale prices in the United Kingdom has gone up by $3\frac{1}{2}$ points between September 1931 and August 1933. On the other hand, the Index in the case of India has gone down by three points during this period. This disparity of $6\frac{1}{2}$ points is a grave matter and shows conclusively that the rupee is over-valued.

The Government have admitted the extreme importance of raising the prices but no practical steps have yet been taken to achieve this object. In our opinion, the lowering of the ratio is the necessary first step to achieve this object.

ANNEXURE.

STOCKHOLDERS' SCHEME.

The bank to be a State Bank and the Government to own the whole capital of the Bank.

The Government may issue 5 per cent. Government of India Reserve Bank stock at par in amounts of Rs. 100 and multiples thereof, but not exceeding Rs. 10,000, to an aggregate amount not exceeding the authorised capital of the bank. A register of Reserve Bank stockholders shall be maintained at Bombay, Calcutta, Madras, Rangoon, Lahore, Allahabad, Patna, Nagpore, Shillong and Delhi.

Stockholders shall be registered in a register of the province in which they are domiciled or ordinarily resident, or in which they have their principal place of business at their option, but no stockholder shall be registered in more than one register. Stock shall be registered in

amounts of Rs. 100 or multiples thereof and not more than Rs. 10,000.

Stock shall be registered in any one name.

Stockholders domiciled in Coorg shall be registered in Madras; stockholders domiciled in any of the areas directly administered by the Central Government shall be registered in Delhi.

Stock may not be held in the name of any one who is not domiciled in India or who is not a British subject ordinarily resident in British India. Each stockholder shall have one vote irrespective of his holding.

Stockholders on each register shall elect 60 trustees for Reserve Bank stockholders for the province in which the register is situate, provided that no trustee shall be elected unless there are not less than 1,000 individual stockholders of the register. The 60 persons who receive most votes at an election shall be elected.

Elections shall be held triennially and casual vacancies shall not be filled up.

A trustee shall hold not less than Rs. 1,000 nominal value of stock.

Trustees in each province shall elect one director to the Board of the Bank.

A Director shall hold Rs. 10,000 of Reserve Bank stock.

In order that trustees and directors may not have to go into the market and buy up the qualifying amount of stock, the Government shall retain unissued, in the first instance, not less than one crore nominal value of stock for issue to directors and trustees as occasion demands.

Directors and trustees must be qualified to be registered on the register of the province for which they are directors and trustees, respectively.

In addition to elected trustees, any person who is for the time being an elected member of the Council of State or of the Assembly for a constituency in the province shall be a *Trustee ex-officio*.

The Board of the Bank shall consist of one Governor, two Deputy Governors (one not voting), two Directors elected by the Associated Chambers, two Directors elected by the Federation of Indian Chambers, one Director elected by the Provincial Co-operative Banks, two Directors elected by trustees, four Directors nominated by the Governor General in Council, one Government officer not voting, in all 23 of whom 21 or 22 would be voting.

The Governor and Deputy Governors shall hold office for six years; Directors nominated by the Governor General shall be appointed for three years in the first instance and thereafter for five years; Directors elected by the Chambers of Commerce and by Provincial Co-operative Banks shall be elected for four years in the first instance and thereafter for five years; the Directors elected by the trustees shall hold office for five years.

It might further be provided that when the time comes for Local Boards, Local Directors together with five members of the Local Board elected by local trustees, shall form a Local Board to which such functions shall be assigned as the Reserve Bank Board may determine.

Preference in allotment to small subscribers.

Stock to be issued provincially, not more than forty lakhs of rupees to be issued in any one province at the outset.

SANT SINGH.

HOSSAIN IMAM.

VIDYA SAGAR PANDYA.

*B. K. BASU.

*NRIPENDRANARAYAN SINHA.

B. DAS.

MATHURA PRASAD MEHROTRA

RAM SARAN DAS.

GAYA PRASAD SINGH.

I have signed a note of dissent already. But I like to append this note of mine on a few points.

From the very commencement of the deliberations of the Committee it became apparent that the Committee will have to work under a very great handicap. The present Bill was drafted on the report of the Committee on the Indian Reserve Bank, which sat in London under the chairmanship of some person whose name has not been disclosed to us. This report was obviously based upon the recommendations of the Federal Structure Sub-Committee of the First Round Table Conference, where the Secretary of State for India had given the undertaking that "representative Indian opinion will be consulted in the preparation of proposals for the establishment of the Reserve Bank". It is not clear why this Committee sat in London. The "representative Indian opinion" was taken to mean certain nominees of Government in whose selection no chamber of commerce or representative economic interest of India had any voice.

Indians under the present subordinate position have to work under a distinct disadvantage. But this disadvantage was further increased in this Committee when we found that Government of India, constituted as it is predominantly British in outlook, was not given the freedom of discussion. This created an atmosphere of distrust in the Joint Select Committee. Some of us in spite of ourselves had always to be on our guard against the "British Roller". Where intellect and reason should have been directed to discover the solution of the problems that the Reserve Bank scheme demanded, we were ever kept alert to watch India's interest lest this be subordinated to the economic needs of Great Britain. The wires between Delhi and Whitehall were constantly kept busy, and the rod of the Great Moghul hung over the Committee deliberations like the sword of Damocles. The majority report was greatly influenced by the attitude of the Whitehall, and, hence, its conclusions should be accepted with reserve.

I want to make it perfectly clear that I should not be understood to cast any reflection upon

*I do not agree to the portion of this minute dealing with the question of ratio.

the attitude of the Chairman. The Chairman gave us all the latitude in fully discussing the various problems on their merits. He was very considerate, and sincerely tried to guide us with his expert knowledge and ripe experience. But though his heart was with us, the flesh was working under the same limitations.

After the Bill was referred to the Joint Select Committee, on the 5th of October, 1933, Sir Samuel Hoare is reported to have made the following statement before the Parliamentary Select Committee:

"We are asking the Indian Legislature by its own legislation to carry out arrangements that we say are essential for bringing the constitution into being. Obviously if that arrangement is to take effect it cannot be possible for the Indian Legislature at some future time to alter the conditions without which constitution would not have come into operation without the previous assent."

This statement filled us with some doubts about the desirability of our being a party to this legislation under the conditions indicated by the Secretary of State. Consequently, some members of the Committee drew the attention of the Chairman to this statement and requested him to clear the position. The Chairman promised to do so, and on the 31st October 1933, he issued the following press communiqué.

"With reference to the reports which had appeared in the press as to the statements made by the Secretary of State to the Joint Select Committee on the question of powers of amendment of any Reserve Bank legislation, the Finance Member made the following explanation to the Joint Select Committee on the Reserve Bank Bill this morning:

There has evidently been some misunderstanding as to the scope of the Secretary of State's answers to Lord Rankeillour which were concerned only with a technical point raised in the course of the discussion on another subject and did not imply any change of view or policy, so far as the Secretary of State was concerned, as to the power of amendment of the Reserve Bank Act by the Indian Legislature subject to the prior consent of the Governor General. There is no intention under the present proposals that the British Parliament should undertake legislation amending the Reserve Bank Act. According to the White Paper proposals this would be the function of the Indian Legislature subject to the prior approval of the Governor General. The technical point with which the Secretary of State was concerned arises in the following way.

The Constitution Act will have to contain an Adaptation clause laying down how, when the constitutional changes at the Centre take place, the powers to be exercised by the Governor General in Council under the Reserve Bank Act will have to be exercised in the new constitution. If the British Government's proposals for the constitution are accepted by the Joint Select Committee and if the Constitution Act in the Adaptation clause, were to declare that certain powers exercisable by the Governor General in

Council under the Reserve Bank Act were to be exercised in future by the Governor General at his discretion, and if in future it were desired by agreement that any particular power or powers thus provided for should be exercised by the Governor General on the advice of his Ministers and not at his discretion, then legislation giving effect to this would be an amendment of the Constitution Act and not of the Reserve Bank Act and could be undertaken by no other authority than the British Parliament unless the Constitution Act itself provided for this contingency. The question is now being considered whether such a provision can be included in the Constitution Act, and that is the point of doubt to which the Secretary of State was referring in his replies!"

We carefully studied it and were not satisfied with the reply. So twelve members of the Committee handed over the following statement to the Chairman.

"We have carefully considered the statement that you made on the evidence of the Secretary of State on October 5, 1933. We think it essential and necessary that in future the Indian Legislature should have the right to amend the Reserve Bank Act from time to time as it suits the interests of and conditions in India. We are agreeable to accept the condition that the previous sanction of the Governor General in Council, which in future constitution should only mean Governor General with the advice of his Minister, should be obtained for amending or repealing this Act, but we cannot accept that the Legislature should be handicapped in this matter by being asked to secure the sanction of the Governor General at his discretion, Secretary of State for India or the British Parliament. We consider this right to be of such a fundamental character as to make the details of the Bill much less important. If the Indian Legislature of the future is denied the right to take such matters into consideration as may be approved of or permitted by the Governor General on the advice of his Ministers, the Reserve Bank will be fettered in laying down the Currency and Exchange policy of India. Unless the matter is cleared up to our satisfaction, it will be our duty to advise the Legislature not to proceed with the consideration of the Reserve Bank Bill."

No satisfactory reply has been forthcoming since the statement was handed over to the Chairman. The constitutional position has not been clarified, so I will humbly request the House not to proceed with the consideration of the Reserve Bank Bill until and unless the constitutional position is made clear.

Freedom from Political Influence.

The Central Bank is essentially a nation's bank and hence it must be "*sui generis*, it must be as Indian as the Ganges". It follows from this that the proposed bank should be free from all foreign influences. As this bank is to control the currency and credit of the country, it is comprehensible that its working should be kept scrupulously free from all sorts of political influence and particularly from the ever changing party government, so that any Finance Minister may not be tempted to manipulate the currency to the requirements of an unbalanced budget.

The Bill though ostensibly aims at such a safeguard, it does not in fact provide a citadel against political influences. A cursory glance at the various clauses of the Bill reveals that while Indian political influence is done away with, British political influence has been introduced, which is likely to make the Whitehall the controlling factor of the currency policy of the bank; and it is feared that the Bank of England may assume the role of a dictator. The Governor General in Council, which in future constitution may mean Governor General at his discretion, has been given power under the Bill to have a final voice in the appointment of the Governor and the two Deputy Governors and in nominating four members to the Central Board. Thus a position of advantage has been secured to the Governor General, who will in future be in a position to exercise 35 per cent. of votes in the Central Board.

The Governor being the Chairman of the Board will exercise very great power and influence over the deliberations of the Board, and thus practically the political influence of the Governor General will be felt at every stage of the deliberations of the Central Board. Therefore, to say that the Bill eliminates all sorts of political influence is to say that which will not be the fact. An ill-conceived reserve bank scheme is likely to be a source of very great national harm. If we are unable to keep out all sorts of political influence, the next best alternative is to adopt the scheme of a state bank, so that the legislature should have a watching eye over its working.

Discrimination.

During the course of our deliberations the Chairman had drawn the attention of the Committee not to put in anything in the clauses of the Bill, which might have the appearance of discriminating against Britishers residing in India. We were reminded of the provisions in the White Paper and the deliberations of the Parliamentary Select Committee regarding discriminatory legislation. I think when some of us demanded that 75 per cent. of the shares of the bank should be held by Indian nationals and that the Central Board should have the same percentage of Indian directorate, we were not in any way enacting anything, which may be called discriminatory legislation. It was a simple case of what in another sphere of legislation under executive action is known as Indianisation. It is hardly possible in India even at this stage of development to enact any discriminatory legislation against Great Britain. The proclamation of Queen Victoria of 1858 was not a proclamation embodying any discrimination against Britisher, but rather it was an announcement that thenceforward no discrimination would be used against Indians in securing higher jobs in Government services, though we know that the provisions of that proclamation have not yet been given effect to though India has always been till to-day trying to get out of the discriminatory attitude of the British bureaucracy in India. If we now provide safeguards in our banking legislation that is to vitally affect the economic interests of this country, we only do so, so that like the Central Banks of all other countries, the Indian Central Bank may be predominantly Indian in outlook, in its constitution and in its working.

SANT SINGH.

Besides the other notes of dissent which I have signed with other members I wish to note a few more points in which I disagree with the majority of my colleagues. I further reserve to myself the right to move amendments to the Bill on points which are of minor nature and which are not noted below.

1. Should the shareholders scheme get the approval of the House I would suggest some amendments as an alternative to the scheme of 75 per cent. reservation for the Nationals. I advocate the division of the capital into equal parts of Class A and B shares; A to consist of hundred rupee shares and reserve for Indian subjects of His Majesty, Class B to be available to all those mentioned in sub-clause 3 of clause 4 and the shares being of rupees 500 each. Holders of two shares having one vote with a maximum of ten votes to each person. I have suggested the above scheme to meet the demand of market ability and full sale-ability of the shares which was greatly stressed in the Committee.

2. The suggestion in our report on clause 8 that the Governor General should exercise his powers of nomination to get representation of co-operative banking interest does not satisfy me, I would rather recommend a system by which the apex banks would select a panel of three names and then submit it to the Governor General in Council who would nominate one of the three to the Central Board of the Bank.

3. The powers vested by sub-clause 14 of clause 17 in the Bank to borrow money in India is an innovation upon central banking practice and in effect an inconceivable state of affair. The Bank can under no circumstances require money to sustain the credit from outside at a moment when they wish to operate. They can recall loan, sell securities, or transfer assets to the Issue Department and thereby get back any redundant money that might be in circulation. Therefore borrowing power should be confined to places outside India.

4. Though we have accepted 40 crores of gold holding on old parity, I strongly object to the exclusion of sterling securities from the list of the approved securities of the Issue Department. The advantage accruing from market operation in securities in reducing the rate of interest payable on Government accommodation is well known. We have to borrow money in London so often that it is desirable that our credit in London should be sustained. If the disastrous experience of six months before, when Government after successfully floating a loan of 3½ per cent. in India had to borrow within ten days money in London at 4 per cent., is to be guarded against and not repeated, it is essential that the Bank should deal in sterling securities. While not insisting upon their inclusion in the external assets my proposal to include them in the internal assets, was also turned down. It is a cold comfort to think that the Bank can in Central Banking Department operate in this line of business. The practice of central banking is to keep the greater part of their holdings in interchangeable securities, therefore in effect this provision will be more or less a dead letter. I am therefore left with no alternative but to suggest that the whole of the surplus profits dealt with in section 44 should be handed over to the Governor General in Council in the form of terminable sterling Indian loans for cancellation.

5. If lower ratio is not acceptable to the Government under clauses 40 and 41 I advocate the omission of these two clauses, and thereby emphasise the temporary nature of the provision as brought out in the preamble. It will be a return to the position in which we were before 1927, when Government was under no legal obligation to buy or sell exchange at any given figure. Maintenance of 18d. ratio will be too great a strain for the Bank and with the first adverse or inadequate trade balance its resources will be crippled, and it may even prove unable to maintain the ratio. Its failure on the other hand is bound to retard constitutional reform, therefore it is not advisable to subject it to the unbearable strain of maintaining the exchange.

6. In regard to the provisions of section 42 regarding the inclusion in list of schedule banks of only those concerns which have five lakhs of capital and reserves, is in my opinion unscientific. The Reserve Bank should take into account the deposits as well, as the compulsory deposit in the Bank is dependent upon schedule bank's liabilities to the public. The result of the present system is to give facilities to Mysore Industrial Bank of Bangalore with a total deposit of forty three thousand and refuse its facilities to Bhawanipore Bank of Calcutta which has a deposit of more than thirty two lakhs. I therefore advocate an additional qualification in sub-clause 6 to include all those banks who have a deposit account of more than ten lakhs in their hands.

7. In clause 53 I wish to so amend the Indian Coinage Act so as to make rupee coins legal tender up to Rs. 100 only, and thereby popularise notes, and incidentally help the return of rupee coins to the Issue Department. It might further reduce the popularity of rupee and thereby help us in the long run to establish a sounder basis for the currency.

HOSSAIN IMAM.

We, the undersigned members of the Joint Select Committee, to which the Reserve Bank of India Bill of 1933 was referred, beg to append the following Minute of Dissent to the Report that we have signed.

In our opinion the provision in clause 42 of the Bill to the effect that the Scheduled Banks should deposit 5 per cent. and 2 per cent. of their demand and time liabilities respectively should not be made by an enactment of the Legislature, but should be left to the convention that would grow up between the Reserve Bank and the member banks after the Reserve Bank is established and working. We desire to point out that the banks in India do not control the monetary position of the people and the country and that such deposits will tend to lower the dividends of Indian Banks and create other difficulties between such banks and their constituents without attaining the object for which the deposits are designed.

Since it has now been decided by the Committee that the Reserve Bank should take steps at the earliest practicable date and in any case within three years of its establishment to bring the indigenous bankers into the Reserve Banking system, we consider that only after the indigenous bankers have been linked up with the Reserve Bank, the question of

compulsory deposits from the Scheduled Banks should be properly and usefully taken up for consideration.

B. K. BASU.
NRIPENDRANARAYAN SINHA.
VIDYA SAGAR PANDYA.
MATHURA PRASAD MEHROTRA.
RAM SARAN DAS.
MOHD. AZHAR ALI.

The November 17, 1933.

We must also give pointed expression to the strong and widespread feeling in the country as regards the most important constitutional issue affecting this Bill, we mean that "Legislation which affects the coinage and currency of the Federation, or the powers and duties of the Federal Reserve Bank in relation to management of currency and banking" can be undertaken by the Indian Legislature only with the consent of the Governor General "given at his discretion", which means, as laid down in the White Paper "under the directions of one of His Majesty's Principal Secretaries of State". This will imply under the direction of the British Cabinet, who will be naturally dominated by the London city or other foreign interests and influences. We are, therefore, of opinion that if this provision in the White Paper will not be modified, it will not confer even the shadow of financial autonomy with the establishment of the Federation. When we bear in mind that the life of the Bill will run almost a generation we cannot but hold that an institution which will have at its inception such obvious limitations will hardly "ensure confidence in the management of India's credit and currency", for the institution will fail to work in India, for India, and by Indians. In the event of no satisfactory assurance being forthcoming, we have no other option than to recommend to the Legislature to insist that the Bill be not proceeded with.

NRIPENDRANARAYAN SINHA.
H. IMAM.
VIDYA SAGAR PANDYA.
B. DAS.
MATHURA PRASAD MEHROTRA.
GAYA PRASAD SINGH.
RAM SARAN DAS.

The November 17, 1933.

In the other joint minutes of dissent we have set down the major points of disagreement with the majority report. We have touched here other points that we deem it our duty to bring to the notice of the Assembly.

I. In omitting provision of definition of "sterling standard countries" in section 2 (d) the Committee was influenced by the pressure of public opinion. The dream of London financiers to create "sterling standard countries" since England and a few other countries went off the gold standard in September, 1931, has ended in smoke and inspite of Indian Currency being tied down to the chariot wheel of sterling under compulsion, India is in no mood to accept a paper sterling standard. Further, owing to discriminating policies adopted against India and Indians by most of the British Dominions, India has no desire to help those Dominions directly or indirectly in their financial credit and throughout the Bill every attempt has been made to compel the Reserve Bank to deal in sterling securities of the United Kingdom.

Similarly, section 4 (c) has been redrafted to exclude citizens of any British Dominion which discriminates against Indians to hold shares of the Reserve Bank. It ought to be provided that the Governor General in Council should notify in the Gazette of India along with the publication of the Reserve Bank Act, the names of such Dominions that must be excluded. South Africa is the greatest sinner in this respect. Next comes Canada. We suggest that the Government of India should appoint a small committee to enquire if Australia and New Zealand can really be given equal facilities along with the citizens of the United Kingdom. We would prefer for the sake of national self-respect of India the Reserve Bank should not hold as assets of the Issue Department stocks or securities of such Dominions.

II Our colleagues signing the majority report place sublime faith in the desirability of distributing the shares and the voting rights attached to them as widely as possible. Yet, in the same breath, they disqualify and sterilize votes of so many shareholders by providing one vote for a holder of 5 shares of Rs. 100 each, which means that all shareholders holding 1 to 4 shares will have no voting power. The most democratic provision should be "one share, one vote" and "one person, one vote." Our colleagues have been more anxious for the conveniences of would-be-directors than widening the franchise.

III. The Joint Committee Report of 1927 provided for one Governor and one Deputy Governor and specified in the body of the Bill that "one of these two shall be an Indian". At that time it was given out that the first Deputy Governor would be an Indian who would become full-fledged Governor after five years.

We dissent from the change agreed to by our colleagues that there should be two Deputy Governors from the beginning. No reasons have been adduced that work will be too heavy for one Deputy Governor. In 1927 there was a talk of an Indian Assistant Deputy Governor. We are of opinion that there should be only one Deputy Governor for the present and that he should be an Indian sufficiently young to become Governor after five years. There should be no camouflage of appointment of a superannuated Indian as Deputy Governor for

there would then be no chance of that Indian becoming a Governor.

We further wish to record here the strong public feeling against any I. C. S. being appointed Governor or Deputy Governor of the Reserve Bank. The frenzied financial policy of civilian Finance Members should serve as a grave warning against their inclusion.

IV. The omission of the word "persons" after the words "scheduled banks" is fraught with serious consequences. We believe there are certain firms on the approved list of the Government of India today—such as Kallis, Volkarts, etc.—who buy and sell sterling at better rates to Government. Not only there is no loss in rates but this practice has had a wholesome check on the Exchange Banks who will be debarred from combining to put the rates high. Section 18 has been amended to give power of direct discount to the Bank when special occasion needs it. We wish to ensure to the Bank this facility of dealing with other "persons" in normal times. Too much attention has been paid to the vested interests of London Stock Brokers and Exchange Banks and we strongly urge that the Legislature will rectify this omission.

V. How far Indian States are entitled to consideration from the Reserve Bank depends entirely on the sound financial position of individual States. We think it would be a grave risk if political considerations entitle some States such facilities. Knowing as we do the instability of life and property in some of these States, we doubt if the States would be prepared to disclose to the authorities of the Reserve Bank their real financial position. We urge that the Reserve Bank should not work as financial agents of any State that does not manage its public finance on sound principles and that does not possess a sound constitutional administration.

VI. Our recommendations for the offer of free remittance facilities to the Scheduled Banks should be incorporated in the Regulations of the Reserve Bank and should also form one of the clauses in the agreement of the Reserve Bank with the Imperial Bank.

VII. The proviso in clause 37 is a make shift compromise which gives us little solace. We have to point out that our apprehensions are based on the fact that as the present ratio must be maintained by the Reserve Bank the assets of the Issue Department will be frittered away to keep up the forced ratio of 18d.

This point was strongly brought out in the course of evidence before us and the following extracts* give in a nutshell what the country fears.

"Sir Purushotamdas Thakurdas: In any stress or emergency is it intended that if gold is reduced in proportion the following penalty laid down in the section comes in? It does not mean parting with gold.

*Footnote by the Honourable Sir George Schuster (Chairman):

These discussions were informal conversations which were only loosely recorded, and circulated in order to refresh the memory of members. They have not been checked by those who took part in the discussions and cannot be regarded as accurate records.

GEORGE SCHUSTER.

Chairman (Sir George Schuster): It might mean parting with gold if you go down below 25 per cent. of your resources. If you go down to 20 per cent., you have to part with some of your gold.

Sir Purushotamdas Thakurdas: If the Committee decided to fix a figure as the minimum, whether it is 35 or 40, then at any rate that part of the gold cannot be touched.

Chairman: If it really cannot be touched, we have always said it might just as well be at the bottom of the sea. As a matter of fact you might remember that you yourself said in London that obviously if a crisis should occur, then it would require parting with gold. . . .

* * * *

Mr. Hossain Imam: It should be touched as a last resort after exhausting all other sources.

Sir Cowasji Jehangir: We desire to have a provision that whatever minimum may be put down, it shall not be touched until all other resources are exhausted.

Chairman: If it is never to be touched, it might never be there at all. It may be necessary to use it in the last resort and then to make it up again. . . .

* * * *

Sir Purushotamdas Thakurdas: Is it the intention that in order to maintain the ratio it will be permissible to the Reserve Bank to part with its gold?

Mr. Hossain Imam: Yes.

Sir Purushotamdas Thakurdas: Then that is one thing against which I want protection. I think until the bank has proved its merit people would rather sit on their gold.

Chairman: But it would be an absurd position to say that once you put gold into the reserves it should never be taken out. I entirely agree as a matter of fact with Sir Purushotamdas that a point would arise at which it would be obviously useless to continue the fight and it would be much better to preserve your resources, so that you have got something with which to start; but if you tie your hands absolutely, if you give yourself no latitude, if you lay down in the Act that under no conceivable circumstances can that particular portion be touched, then you cannot even use it as a basis perhaps for arranging credits, which might help you to carry on."

Our considered views are that the minimum gold reserve of 40 crores should never be touched. The proviso in Sec. 37 (1) only strengthens our fears that a shareholders' bank with an irresponsible Central Board and an autocratic Governor (who will not be an Indian from the beginning) is not the right machinery to establish the credit of India in its best interests.

VIII. The right remedy lies in the early revision of the ratio. The Indian members of the London Committee shirked this part of their responsibility, when they stated in the course of their London Report,—

"A considerable majority of the Indian Delegates feel it their duty to record their view that a suitable exchange ratio is one of the essential factors for the successful working of the Reserve Bank. They point out that considerable changes have occurred in the currency

Section 49(A)(2).

basis and policies of almost all the countries of the world in the last few years. In their view it is for the Government of India and the Legislature to examine these and all the other relevant considerations with a view to ensuring that the minimum possible strain is placed on the currency system of India."

The majority report gives some reasons for maintenance of the present ratio at 18d. The new Clause 49A (2) provides that the Bank (which for this purpose will mean the Central Board) when "it is of opinion that international monetary position has become sufficiently clear and stable to make it possible to determine what will be suitable as a permanent basis for the Indian monetary system and to frame permanent measures for a monetary standard, it shall report its views to the Governor General in Council". This does not meet the demand of the public which is for immediate alteration of the ratio. The public therefore expects the Central Board to do its duty to the country with the least possible delay, so that the Government will be compelled to take necessary measures for establishing a really suitable ratio and a permanent monetary standard.

VIDYA SAGAR PANDYA.
B. DAS.

In addition to the joint note of dissent with my other colleagues I regret I cannot see eye to eye on the following points incorporated in the Bills—

(1) The Act shall remain in force for 25 years and the Legislature will have no power to amend it as members will have to seek permission of the Governor General in Council and the Secretary of State before introducing any amendments and such permission will never be given if it is inconvenient to them [clause 1 (4)]. I must, therefore, insist on the Legislature retaining power to make alterations on its own initiative.

(2) There ought to be a limit of Rs. 25,000 the maximum holding of shares by a single shareholder. In case it is not done the capitalists who have tons of money and are now prepared to invest at about 4 per cent. will purchase shares for large amounts. They will thus sterilize votes and deprive the agriculturists and middle classes of having any hand in the Bank. This will defeat the very object and the Bank will soon pass into the hands of capitalists. Moreover they will encourage and induce market manipulation so as to enable them to reap large profits by premiums thereby brought about. (Clause 4.)

(3) Instead of five centres there ought to be seven centres at places where currency offices are located at present, namely, Bombay, Calcutta, Madras, Rangoon, Lahore, Cawnpore and Karachi. India is a vast country and hence the analogy of the central banks of other countries does not fit in. Besides there are countries which have got regional branches and it makes little difference if the number is increased from five to seven to serve the agriculturist and industrial portions of Northern

India. Besides the change will not incur any additional expenses too, rather it may prove to be cheaper in the long run. These currency offices will have to be maintained under the present scheme and so with a little addition and alteration in the staff, can be easily converted into Reserve Bank centres. Moreover as these are business centres they will save a lot from the amount which will have to be paid in commission to the Imperial Bank. No expenditure will have to be incurred in the construction of strong rooms and buildings as well. (Clause 6).

(4) The appointment of Governor and Deputy Governors should be made by the Governor General in Council from a panel of six men recommended by the directors of the Central Board and out of these three posts, at least two should be held by the natives of India [Clause 8 (a)].

(5) Out of the four directors nominated by the Governor General in Council at least two should definitely represent the agricultural and co-operative interests. India being an agricultural country, must have adequate representation from that class [clause 8 (b)].

(6) There should be ten instead of five elected members on Local Boards to give adequate representation of different interests, specially because they will form an electoral college to elect directors of the Central Board [Clause 9 (1a)].

(7) Sub-clause (4) of Clause 11 should be omitted. The object of disqualifying members of the Central and Provincial Legislatures is only to avoid political influence from the Bank. But if the Secretary of State and his representative the Governor General comes in places more than the number of the clauses of the Bill, the very object for which this sub-clause was inserted, is defeated. Surely he is the head of the biggest political party. Besides under the new reforms number of the members of the Local and Central Legislatures will be more than doubled and so we shall be depriving our best men from one of the two places. The directorship of the Reserve Bank is an engagement for about 10 to 12 days in a year which can be very easily afforded by members of Legislatures.

(8) The directors should elect their own chairman to preside in meetings instead of the Governor or Deputy Governor who are merely executive heads to carry out their decisions. This practice is prevailing in the Imperial Bank of India and there is no reason to depart from it [Clause 13(2)].

(9) The Governor General in Council should appoint a committee of three or five persons in the first instance to issue shares, make allotments of shares and carry out elections of Local and Central Boards and the day the Boards are completely elected, they should retire automatically. If the whole Board is nominated in the first instance there is every danger of these persons forming a coterie and getting themselves re-elected [Clause 15 (4)].

(10) The words "or a provincial co-operative Bank" should be inserted after "scheduled Banks" in sub-clauses 1(a) and (b) of Clause 17

to enable them to get equal advantages of purchasing, selling and rediscounting bills and promissory notes which the schedule banks shall derive. The words "or loans and advances" be also inserted after "cash credit" in 4(e) of the same clause to give this facility to co-operative institutions.

(1F) *Agreement with the Imperial Bank of India.*

The terms offered to the Imperial Bank are very much on the side of generosity which it has not justified by its deeds and are practically the same as were offered in 1927-28 Bills in spite of the fact that it, since then, has taken advantage of the progress and expansion of five years more. It has totally refused to make advances on immovable properties and has failed hopelessly to satisfy public expectations in the way of developing a bill market in India; it has not provided adequate finance to industry and agriculture; it has practically withdrawn its facilities to the co-operative institutions and failed to develop banking capital in the country. India is an agricultural country and it was but proper to expect that a quasi-government bank which had all their resources at its disposal, will do its best to render every possible help. In support of this argument I shall quote two sentences from the Central Banking Enquiry Committee Report (page 143):—

"The Policy of the Imperial Bank of India in regard to the grant of financial assistance to some of the provincial and central co-operative banks seems of late to have undergone a definite change and it is stated that it shows today a much smaller measure of readiness to help them than it used to do in the past. We consider that free remittances of funds for co-operative purposes is of the utmost importance to the co-operative movement and that no attempt should be made to curtail the privileges under the rules of the Government of India in this matter".

The payment of compensation to the Imperial Bank for "disappointed expectations" was made out by the London Committee. The claim is unprecedented in the banking history of the world and is preposterous. The agreement with the Government under which it opened 100 branches was made for ten years only and expired in 1931. It has hence not only exceeded the time of agreement by two years but established its first position in India owing to the Government backing and the enormous balances held free of interest.

In my opinion, the future agreement should be made on the following conditions if it is to act as sole agent of the Reserve Bank:—

1. The period of agreement is to be fixed for 10 years according to 1920 agreement.
2. It should get a commission of 1/16th of one per cent. on the first Rs. 100 crores and 1/32 of one per cent. on the remainder.

3. (a) During the first two years from that time it shall have one crore free of interest and 2 crores at 2 per cent.
- (b) During the second two years it shall have 50 lakhs free of interest and 2½ crores at 2 per cent.
- (c) During next two years, it can have Rs. 3 crores at 2 per cent.
- (d) In subsequent years Rs. 3 crores at a rate of interest settled by the Reserve Bank.

MATHURA PRASAD MEHROTRA.

The 18th November 1933.

I have signed the Report of the Joint Select Committee appointed to consider the Reserve Bank of India Bill, 1933, subject to the following minute:—

It is unfortunate, but it cannot be denied, that, so far as the Muslim community is concerned, it cannot, in the existing conditions in India, rest content, with safety, on mere assurances on the protection of its interests in securing for it its due weightage in public institutions such as the Reserve Bank. In the circumstances, while the introduction of communal, or racial, controversy in the measure making for the establishment of the Reserve Bank is reprehensible, I shall not be doing my duty as a Muslim representative from Bengal if I do not express a desire to see some provision made in the measure for ensuring that the Muslim community should be given adequate representation in the Central and Local Boards. This reservation would not have been necessary, but discussions affecting the appointments of the Governor and two Deputy Governors have led to an assurance from the official members that provision will be made for securing one of the three appointments for a qualified Indian. Muslims would, therefore, naturally desire to be afforded an opportunity, of proving their capacity for holding one of these appointments, which will be earmarked for Indians, in rotation with members of other communities in India. Keeping in view the economic condition of Muslims, it is also desirable that there should be a definite provision in the Reserve Bank Act ensuring to them representation, as has been done in the case of agriculturists, in Central and Local Boards. This is essential if the Muslim community is not to be economically isolated.

I am also opposed to the imposition of such restrictive qualifications on the appointment of the Governor as in Section 8(1-A). To confine the appointment of those with "tested banking experience covering a period of not less than five years" would exclude many who, without actual banking experience, might have unquestioned and authoritative position in the world of commerce. Steps should be taken to see that men of acknowledged authority as financiers are not excluded from holding office as Governor simply because they have not served in a bank for five years.

In regard to the ratio question, I, in common with the other signatories of the Report, accept the assurance that it is not the intention of the Bill to raise the ratio issue. At the same time I think it will serve a useful purpose, if

I record it as my firm conviction that it is necessary that the Government should take steps to review the entire policy affecting the currency system in India, with a view to prevent the violent changes that have been taking place from time to time in the currency system of the country. This is not the time to create any monetary upheaval in the rupee-sterling sphere, but it is in the highest desirability that, as soon as monetary conditions in the world show signs of stability, an exhaustive inquiry should be instituted for establishing India's currency on a sound basis in relation to sterling.

MAHMOOD SUHRAWARDY.

NEW DELHI,

The 18th November, 1933.

At the very outset we desire to make it clear that it is absolutely essential, for acceptance of this Bill, that Governor General in Council shall mean only Governor General as advised by member in charge of Finance. It has been generally agreed that the Reserve Bank should be free from all political influence, both in India and England and if the power is left in the hands of the 'Governor General at his discretion' that will mean only his being dictated by the Secretary of State for India who will primarily be guided by the interests of the city of London. We have not received any assurance from the Government till the signing of the report that they accept the above interpretation about which we made a representation to the Chairman of the Joint Committee. Unless the assurance is forthcoming in the House we recommended the Bill should not be proceeded with.

State vs. Shareholders' Bank: Indian public opinion for various reasons demand a state bank and it is difficult to realise why the Government is so much against the idea of a state bank when they themselves accepted this very principle of a state bank in 1927. The main object of the Indian Reserve Bank should be the control and management of the currency and credit of India to the best interest of the country. Almost all the essential powers have been centralised in the hands of the Governor General in Council in the present Bill. The present scheme of a shareholders' bank as embodied in this Bill does not achieve its main object unless the possibility of the domination by the Secretary of State is entirely removed. The main objection, so far advanced, to a state bank is the difficulty of securing a proper Board of Directors, who would be free from political influence. Certainly, the obstacle is not insurmountable. Government can easily ensure the independence of such a board, as they do in the case of the highest judiciary in the land. The Government's own attempt to reorganise the Railway Board, making it free from political interference, is a proof positive that they can do the same thing in the case of a state bank, if they so desire. If after their appointment, the directors are kept free to act in the best interest of the country, we see no reason whatsoever why a state bank should not be feasible and practicable. For all these reasons we definitely come to the conclusion that, to serve the best interest of the country,

the proposed Reserve Bank should be a state bank, and we, therefore, recommend for its acceptance.

Control by natural born Indians: We fully realise that there is a very strong public feeling in the country that the shares of the Reserve Bank and its control should remain in the hands of the natural born Indians. We agree with that view and we believe that the purpose has been attained by the provisions of the amended Bill. In order to ensure that object, we further recommend that Government should carefully watch the situation so that the expectations may not be frustrated.

Limitation of holding of shares: We prefer to fix a maximum limit for holding of shares of the Reserve Bank at rupees twenty thousand, with a view to prevent concentration of shares and thereby avoid domination by a powerful few.

London Branch: It is our decided opinion that the Reserve Bank must have a branch in London from the beginning, to keep it free from the domination of the Bank of England and also to provide facilities for training of Indians in international money market. Besides, India, unlike other countries, stands on a different footing, inasmuch as she has to meet enormous payments in the shape of Home charges.

Branches in India: On the question of starting of branches in Lahore, Karachi and Cawnpore we keep an open mind and do not wish to say anything except mentioning that there are at present currency offices in all these centres involving a large amount of expenditure and that official members of the Committee also agreed that Reserve Bank branches, if opened in these centres, may not entail a great additional expenditure.

Exchange Ratio: We have decided views on the present exchange ratio that it is not in the best interest of India, we are, therefore, unable to accept fixation of any ratio by Statute. We would, therefore, prefer it to be left to be settled on the report of an Expert Committee and which should subsequently be confirmed by Legislature.

Period of Agreement with Imperial Bank: The period of agreement with the Imperial Bank, in our opinion, should be 10 years, instead of 15 years, subject to termination on 5 years' notice given any time after that period, thus providing the Imperial Bank with an agreement of 15 years certain. We recommend that the terms of agreement with the Imperial Bank should be further scrutinised before being finally accepted by the House.

Buying up Shares by Government: We are also of opinion that Government should have the right to buy up all shares of the Reserve Bank after reasonable lapse of time.

There are certain other minor details which we do not like to refer in this Note but which we will be at liberty to bring before the Assembly.

BHUPUT SING.

MOHD. AZHAR ALI.

S. C. MITRA.

Chapter II, Clause 4 (2 & 5).—The Reserve Bank should have a branch and a separate register of shareholders in Lahore also. The areas mentioned in 5 (b) should be so split up that the whole of the Punjab, N.W.F.P., Baluchistan, Jammu and Kashmir, and the Punjab States are attached to this centre. The great importance of Lahore from the banking point of view may be gathered from the following facts:—

(a) That the centre of the Manager, Northern India branches of the Imperial Bank of India has been shifted from Delhi to Lahore.

(b) There are in Lahore a large number of Indian and exchange banks and the Head Office of more than one important bank.

(c) The indigenous Banks in the Punjab including the Co-operative Banks control resources of nearly 20 crores.

(d) The Co-operative movement in the Punjab is particularly strongly developed and there is an extensive ramification of financially sound Co-operative Central Banks.

(e) The Punjab, being an important agricultural province, where stocking of wheat, cotton and oil seeds is widely practised, may need extensive facilities from the Reserve Bank as contemplated in Section 17.

(f) The close proximity (32 miles of Amritsar)—a very important commercial centre in Northern India where investment against stock as well as foreign exchange business is carried on an extensive scale, is a further argument in favour of establishment of a Branch of the Reserve Bank at Lahore. The establishment of a branch of the Reserve Bank in such an area would inspire confidence and give an assurance to the Banks and the Commercial community in this part of the country that the Reserve Bank is something real and not a phantom institution functioning through the Imperial Bank. Moreover, rediscount facilities to be really effective must be obtainable at the door. If an office of the Reserve Bank is not established in the Punjab the impression will go abroad among the Punjab Banks that the Reserve Bank was an institution that had given them absolutely nothing in return for compulsory deposits. The additional cost on account of a branch in Lahore will be inconsiderable. The currency office, now located in Lahore, would no longer be required; and this means that what is now spent on the currency office will be set free for the Reserve Bank branch. Moreover, I understood the Honourable Mr. Taylor to say that the amount payable to the Imperial Bank on the basis of 1/16 on turnover would be roughly Rs. 1 lac for Lahore. The opening of a branch of the Reserve Bank there is likely to result in a saving. For a centre so important as Lahore where a branch would not mean any heavy additional cost, the mere agency of the Reserve Bank would not suffice. A Branch is essential. The same arguments apply to opening of a branch at Cawnpore and at Karachi.

RAM SARAN DAS.

18th November, 1933.

Ratio.—Clauses 40 and 41, I feel, should be amended as follows:—

Delete in Clauses 40 and 41 words after "at a rate" down to "rupee". Substitute "at a rate to be fixed by the Governor General in Council subject to approval of the Central Legislature before the ratio comes into force."

My contention is that the causes which prevented the London Committee from committing the Reserve Bank to any particular limits of exchange either in terms of Gold or Sterling, are operative even to-day. The Economic situation in the world at large is in fact definitely worse than it was prior and subsequent to the World Economic Conference the period in which the London Committee sat for its deliberations. "The monetary disorganisation throughout the world has been on the increase; and there is no immediate prospect of 'monetary system' being recast or stabilised." Some of us then hoped that world forces, then working, would have brought about the stabilisation of currencies by the time the Reserve Bank Bill was introduced in India. But if our hopes have been belied, it all the more shows that the world economic situation does not justify binding the Reserve Bank to any higher and lower limits of ratio so far ahead of its commencing business. If the proposed limits are the most feasible when the Reserve Bank is about to commence business, the Governor General in Council will have no difficulty in fixing it and in securing its confirmation by the Central Legislature. On the other hand, if conditions are otherwise, the Central Legislature will not have fettered itself, and the Reserve Bank so far ahead to the maintenance of what to all intents and purposes must seem fictitious and more or less speculative rates. My amendment, if accepted, therefore, makes the position much easier for the Government, and is likely to remove many of the genuine doubts and suspicions of the people.

RAM SARAN DAS.

18th November, 1933.

In the majority Report on Section 42 (c) the Central Board is asked to prepare, within three years, proposals for the closer linking of agricultural enterprise with the machinery of the Reserve Bank. It seems to me that the significance of this principle must be widened and further emphasised. The Central Banking Enquiry Committee have made various suggestions for the expansion of our banking system so as to meet and cater to the needs of industry and agriculture; and the committee have indicated that the Reserve Bank should be the core and centre of the banking system and should take a lead in the reforms and measures necessary for expansion. Industry in India is in need of urgent and imperative help if this country is to make any progress and is to find a solution for the menacing unemployment problem. Agriculture is in a sorry plight and also needs immediate assistance. It should, therefore, be laid down that the Reserve Bank should, on the basis of the Banking Enquiry

recommendations, put forward within three years, definite proposals for adequate facilities being made available for industry as well as agriculture.

It is agreed that the citizens of such Dominions as do maintain any measure of discrimination against Indians should not be allowed equal privileges in India. I maintain that the power to decline allotment or transfers

to the Nationals of such Dominions must rest in the Central Board and that the resting of such power in any other authority will be depriving the Central Board of its legitimate authority and power.

RAM SARAN DAS.

18th November, 1933.

[AS AMENDED BY THE JOINT COMMITTEE.]

[Words printed in italics indicate the amendments suggested by the Committee.]

(Where the numbering or lettering of the Bill has been changed the former numbers or letters are indicated in the right hand margin.)

THE RESERVE BANK OF INDIA BILL, 1933.

CONTENTS.

2

CHAPTER I.

PRELIMINARY.

CLAUSES.

1. Short title, extent, commencement and duration.
2. Definitions.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

3. Establishment and incorporation of Reserve Bank.
4. Share capital, share registers and shareholders.
5. Increase and reduction of share capital.
6. * Offices, branches and agencies.
7. Management.
8. Composition of the Central Board, and term of office of Directors.
9. Local Boards, their constitution and functions.
10. Qualifications and disqualifications of Directors and members of Local Boards.
11. Removal from and vacation of office.
12. Casual vacancies and absences.
13. Meetings of the Central Board.
14. General meetings.
15. First constitution of the Central Board.
16. First constitution of Local Boards.
17. Business which the Bank may transact.
18. Power of direct discount.
19. Business which the Bank may not transact.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

20. Obligation of the Bank to transact Government business.
21. Bank to have the right to transact Government business in India.
22. Right to issue bank notes.
23. Issue Department.
24. Denominations of notes.
25. Form of bank notes.
26. Legal tender character of notes.
27. Re-issue of notes.
28. Recovery of notes lost, stolen, mutilated or imperfect.
29. Bank exempt from stamp duty on bank notes.
30. Powers of Governor General in Council to supersede Central Board.
31. Issue of demand bills and notes.
32. Penalty.
33. Assets of the Issue Department.
34. Liabilities of the Issue Department.
35. Initial assets and liabilities.
36. Method of dealing with fluctuations in rupee coin assets.

CLAUSES.

- 37. *Suspension of assets requirements.*
- 38. *Obligations of Government and the Bank respect of rupee coin.*
- 39. *Obligation to supply different forms of currency.*
- 40. *Obligation to sell sterling.*
- 41. *Obligation to buy sterling.*
- 42. *Cash reserves of scheduled banks to be kept with the Bank.*
- 43. *Publication of consolidated statement by the Bank.*
- 44. *Power to require returns from co-operative banks.*
- 45. *Agreement with the Imperial Bank.*

CHAPTER IV.
GENERAL PROVISIONS.

- 46. *Contribution by the Governor General in Council to the Reserve Fund.*
- 47. *Allocation of surplus.*
- 48. *Exemption of Bank from income-tax and super-tax and provision for deduction at source of income-tax on dividends.*
- 49. *Publication of bank rate.*
- 50. *Auditors.*
- 51. *Appointment of special Auditors by Government.*
- 52. *Powers and duties of auditors.*
- 53. *Returns.*
- 54. *Reports by the Bank.*
- 55. *Power to require declaration as to ownership of registered shares.*
- 56. *Liquidation of the Bank.*
- 57. *Power of the Central Board to make regulations.*
- 58. *Amendment of Act III of 1906.*
- 59. *Repeals.*

THE SCHEDULES.

BILL

TO

Constitute a Reserve Bank of India.

WHEREAS it is expedient to constitute a Reserve Bank for India to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage.

AND, WHEREAS in the present disorganisation of the monetary systems of the world it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system ;

BUT WHEREAS it is expedient to make temporary provision on the basis of the existing monetary system, and to leave the question of the monetary standard best suited to India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures ;

It is hereby enacted as follows :—

CHAPTER I.

PRELIMINARY.

1. (1) This Act may be called the Reserve Bank Short title, extent, of India Act, 1933. commencement and duration.

(2) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(3) This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates as the Governor General in Council may, by notification in the Gazette of India, appoint.

(4) This Act shall remain in force for a period of twenty-five years and thereafter until repealed.

2. In this Act, unless there is anything repugnant in the subject or context,—

Definitions.

context,—

(a) "the Bank" means the Reserve Bank of India constituted by this Act ;

* * * * *

(b) "the Central Board" means the Central Board of Directors of the Bank ;

* * * * *

(c) "provincial co-operative bank" means the principal society in a province which is registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies and the primary object of which is the financing of the other societies in the province which are or are deemed to be so registered :

II of 1912.

Provided that where there is no such principal society in a province the Local Government may declare any central co-operative society in that province to be a provincial co-operative society within the meaning of this definition ;

III of 1906.

- (d) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906; and (f)
- (e) "scheduled bank" means a bank included in the Second Schedule. (g)

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

3. (1) A Bank to be called the Reserve Bank of India shall be constituted for the purposes of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

4. (1) The original share capital of the Bank shall be five crores of rupees divided into shares of one hundred rupees each, which shall be fully paid up.

(2) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Delhi, Madras and Rangoon, and a separate issue of shares shall be made in each of the areas served by those registers, as defined in the First Schedule, and shares shall be transferable from one register to another.

(3) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register; and no person who is not—

(a) domiciled in India and either an Indian subject of His Majesty, or a subject of a State in India, or

(b) a British subject ordinarily resident in India and domiciled in the United Kingdom or in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, or

(c) a company registered under the Indian Companies Act, 1913, or a society registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies or a scheduled bank, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, and having a branch in British India,

VII of 1913.

II of 1912.

shall be registered as a shareholder or be entitled to payment of any dividend on any share.

(4) The Governor General in Council shall, by notification in the Gazette of India, specify the parts of His Majesty's dominions which shall be deemed for the purposes of clauses (b) and (c) of sub-section (3) to be the parts of His Majesty's Dominions in which no discrimination against Indian subjects of His Majesty exists.

(5) The nominal value of the shares originally assigned to the various registers shall be as follows, namely:—

- (a) to the Bombay register—one hundred and forty lakhs of rupees;
- (b) to the Calcutta register—one hundred and forty-five lakhs of rupees;
- (c) to the Delhi register—one hundred and fifteen lakhs of rupees;
- (d) to the Madras register—seventy lakhs of rupees;
- (e) to the Rangoon register—thirty lakhs of rupees:

Provided that if at the first allotment the total nominal value of the shares on the Delhi register for which applications are received is less than one hundred and fifteen lakhs of rupees, the Central Board shall, before proceeding to any allotment, transfer any shares not applied for up to a maximum nominal value of thirty-five lakhs of rupees from that register in two equal portions to the Bombay and the Calcutta register.

(6) In allotting the shares assigned to a register, the Central Board shall, in the first instance, allot five shares to each qualified applicant who has applied for five or more shares; and, if the number of such applicants is greater than one-fifth of the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

(7) If the number of such applicants is less than one-fifth of the number of shares assigned to the register, the Central Board shall allot the remaining shares firstly, up to the limit of one-half of such remaining shares, to those applicants who have applied for less than five shares, and thereafter as to the balance to the various applicants in such manner as it may deem fair and equitable, having regard to the desirability of distributing the shares and the voting rights attached to them as widely as possible.

(8) Notwithstanding anything contained in sub-sections (6) and (7), the Central Board shall reserve for and allot to Government shares of the nominal value of two lakhs and twenty thousand rupees to be held by Government for disposal at par to Directors seeking to obtain the minimum share qualification required under sub-section (2) of section 11.

(9) If, after all applications have been met in accordance with the provisions of * sub-sections (6), (7) and (8), any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to and taken up by Government, and shall be sold by the Governor General in Council as soon as may be, at not less than par * * *, to residents of the areas served by the register concerned.

(10) The Governor General in Council shall have no right to exercise any vote under this Act by reason of any shares * allotted to him under sub-section (8) or under sub-section (9).

(11) A Director shall not dispose of any shares obtained from Government under the provisions of sub-section (8) otherwise than by re-sale to Government at par, and Government shall be entitled to re-purchase at par all such shares held by any Director on his ceasing from any cause to hold office as Director.

5. (1) The share capital of the Bank may be increased by the Central Board with the previous sanction of the Governor General in Council and with the approval of the Central Legislature.

(2) The additional shares so created shall be of the nominal value of one hundred rupees each and shall be assigned to the various registers in the same proportions as the shares constituting the original share capital.

(3) Such additional shares shall be fully paid up, and the price at which they may be issued shall be fixed by the Central Board with the previous sanction of the Governor General in Council.

(4) The provisions of section 4 relating to the manner of allotment of the shares constituting the original share capital shall apply to the allotment of such additional shares, and existing shareholders shall not enjoy any preferential right to the allotment of such additional shares.

(5) The share capital of the Bank may be reduced by the Central Board, with the previous sanction of the Governor General in Council, to such extent and in such manner as may be determined by the Bank in general meeting.

6. * * * * *

* Offices, branches and agencies. * The Bank shall, as soon as may be, establish offices in Bombay, Calcutta, Delhi, Madras and Rangoon, and may establish branches or agencies in any other place in India or in London or, with the previous sanction of the Governor General in Council, elsewhere.

7. The general superintendence and direction of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

8. (1) The Central Board shall consist of the following Directors, namely:—
 Composition of the Central Board, and term of office of Directors.

- (a) a Governor and two Deputy Governors, to be appointed by the Governor General in Council after consideration of the recommendations made by the Board in that behalf;
- (b) four Directors to be nominated by the Governor General in Council;
- (c) eight Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 9 and in the following numbers, namely:—
 - (i) for the Bombay register—two Directors;
 - (ii) for the Calcutta register—two Directors;
 - (iii) for the Delhi register—two Directors;
 - (iv) for the Madras register—one Director;
 - (v) for the Rangoon register—one Director; and

(d) one government official to be nominated ✓
by the Governor General in Council.

(2) *No person shall be appointed as Governor (1A) unless he is a person of tested banking experience covering a period of not less than five years.*

(3) The Governor and Deputy Governors shall (2).
devote their whole time to the affairs of the Bank,
and shall receive such salaries and allowances as
may be determined by the Central Board, *with
the approval of the Governor General in Council.*

(4) A Deputy Governor and the Director (3).
nominated under clause (d) of sub-section (1) may
attend any meeting of the Central Board and take
part in its deliberations but shall not be entitled
to vote :

Provided that when the Governor is absent
a Deputy Governor authorized by him in this
behalf in writing may vote for him.

(5) The Governor and a Deputy Governor (4).
shall hold office for such term not exceeding five
years as the Governor General in Council may
fix when appointing them, and shall be eligible for
re-appointment.

A Director *nominated under clause (b) or* elected
under clause (c) of sub-section (1) shall hold office
for five years, or thereafter until his successor
shall have been duly *nominated or* elected, and,
subject to the provisions of section 10, shall be
eligible for *re-nomination or* re-election.

A Director nominated under
clause (d) of sub-section (1) shall hold office during
the pleasure of the Governor General in Council.

(6) No act or proceeding of the Board shall be (5).
questioned on the ground merely of the existence
of any vacancy in, or any defect in the constitu-
tion of, the Board.

9. (1) A Local Board shall be constituted for
each of the five areas
Local Boards, their specified in the First
constitution and func- Schedule, and shall consti-
tutions. tions. sist of—

(a) five members elected from amongst them-
selves by the shareholders who are regis-
tered on the register for that area and
are qualified to vote, and

(b) not more than three members nominated
by the Central Board *from amongst the
shareholders registered on the register for
that area, who may be nominated at any
time :*

*Provided that the Central Board shall in exercising
this power of nomination aim at securing the
representation of territorial or economic interests not
already represented, and in particular the represen-
tation of agricultural interests and the interests of
co-operative banks.*

(2) At an election of members of a Local Board
for any area, any shareholder who has been regis-
tered on the register for that area, for a period
of not less than six months ending with the date
of the election, as holding five shares shall have
one vote, and each shareholder so registered as
having more than five shares shall have one vote
for each five shares, but subject to a maximum of
ten votes, *and such votes may be exercised by proxy
appointed on each occasion for that purpose, such
proxy being himself a shareholder entitled to vote at
the election and not being an employee of the Bank.*

(3) The members of a Local Board shall hold
office until they vacate it under sub-section (6)

and, subject to the provisions of section 10, shall be eligible for re-election or re-nomination, as the case may be.

(4) At any time within three months of the day on which the Directors representing the shareholders on any register are due to retire under the provisions of this Act, the Central Board shall direct an election to be held of members of the Local Board concerned, and shall specify a date from which the registration of transfers from and to the register shall be suspended until the election has taken place.

(5) On the issue of such direction the Local (4A) Board shall give notice of the date of the election and shall publish a list of shareholders holding five or more shares, with the dates on which their shares were registered, and with their registered addresses, and such list shall be available for purchase not less than three weeks before the date fixed for the election.

(6) The names of the persons elected shall be (5) notified to the Central Board which shall thereupon proceed to make any nominations permitted by clause (b) of sub-section (1) it may then decide to make, and shall fix the date on which the outgoing members of the Local Board shall vacate office, and the incoming members shall be deemed to have assumed office on that date.

(7) The elected members of a Local Board shall, (6) as soon as may be after they have been elected, elect from amongst themselves one or two persons, as the case may be, to be Directors representing the shareholders on the register for the area for which the Board is constituted.

(8) A Local Board shall advise the Central Board (7) on such matters as may be generally or specifically referred to it and shall perform such duties as the Board may, by regulations, delegate to it.

10. (1) No person may be a Director or a member of a Local Board who is not or has not at some time been * engaged in * agricultural, commercial, financial or industrial activities, *

(2) No person may be a Director or a member of a Local Board who—

(a) is a *salaried* government official or a *salaried* official of a State in India, or

(b) is, or at any time has been, adjudicated an insolvent, or has suspended payment or has compounded with his creditors, or

(c) is found lunatic or becomes of unsound (bb) mind, or

(d) is an officer or employee of any bank, (c) or

(e) is a director of any bank, other than a (d) bank which is a society registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies.

II of 1912.

(3) No two persons who are partners of the (2A) same mercantile firm, or are directors of the same private company, or one of whom is the general agent of or holds a power of procuration from the other, or from a mercantile firm of which the other is a partner, may be Directors or members of the same Local Board at the same time.

(4) Nothing in sub-section (1) or in clause (a), (3) clause (d) or clause (e) of sub-section (2) shall apply to the Governor, or to a Deputy Governor or to the Director nominated under clause (d) of sub-section (1) of section 8.

11. (1) The Governor General in Council may remove from office the Governor, or a Deputy Governor or any nominated or elected Director :

Removal from and vacation of office. Governor, or a Deputy Governor or any nominated or elected Director :

Provided that in the case of a Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8 this power shall be exercised only on a resolution passed by the Central Board in that behalf by a majority consisting of not less than nine Directors.

(2) A Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8, and any member of a Local Board shall cease to hold office if, at any time after six months from the date of his nomination or election, *

* he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than five thousand rupees, or if he ceases to hold unencumbered shares of that value, and any such Director shall cease to hold office if without leave from the Governor General in Council he absents himself from three consecutive meetings of the Central Board.

(3) The Governor General in Council shall remove from office any Director, and the Central Board shall remove from office any member of a Local Board, if such Director or member becomes subject to any of the disqualifications specified in sub-section (2) or sub-section (3) of section 10.

(4) A Director or member of a Local Board (3-A) removed or ceasing to hold office under the foregoing sub-sections shall not be eligible for re-appointment either as Director or as member of a Local Board until the expiry of the term for which his appointment was made.

(5) The appointment, nomination or election as (4) Director or member of a Local Board of any person who is a member of the Indian Legislature or of a local Legislature shall be void, unless, within two months of the date of his appointment, nomination or election, he ceases to be such member, and, if any Director or member of a Local Board is elected or nominated as a member of any such Legislature, he shall cease to be a Director or member of the Local Board as from the date of such election or nomination, as the case may be.

(6) A Director may resign his office to the (5) Governor General in Council, and a member of a Local Board may resign his office to the Central Board, and on the acceptance of the resignation the office shall become vacant.

12. (1) If the Governor or a Deputy Governor Casual vacancies and by infirmity or otherwise absences. is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may, after consideration of the recommendations made by the Central Board in this behalf, appoint another person to officiate for him, and such person may, notwithstanding anything contained in clause (d) of sub-section (2) of section 10, be an officer of the Bank.

(2) If an elected Director is for any reason unable to attend a particular meeting of the Central Board, the elected members of the Local Board of the area which he represents may elect one of their number to take his place, and for the purposes of that meeting the substitute so elected shall have all the powers of the absent Director.

* * * * *

(3) Where any casual vacancy in the office of any member of a Local Board occurs otherwise than by the occurrence of a vacancy in the office of a Director elected by the Local Board, the Central Board may nominate thereto any qualified person recommended by the elected members of the Local Board,

(4) Where any casual vacancy occurs in the office of a Director other than the vacancies provided for in sub-section (1), the vacancy shall be filled, in the case of a nominated Director by nomination, and in the case of an elected Director by election held in the manner provided in section 9 for the election of Directors :

Provided that before such election is made the resulting vacancy in the Local Board and any vacancy in the office of an elected member of such Board which may have been filled by a member nominated under sub-section (3) shall be filled by election held as nearly as may be in the manner provided in section 9 for the election of members of a Local Board.

(5) A person nominated or elected under this section to fill a casual vacancy shall, subject to the proviso contained in sub-section (4), hold office for the unexpired portion of the term of his predecessor.

13. (1) Meetings of the Central Board shall be convened by the Governor at least six times in each year and at least once in each quarter.

(2) Any three Directors may require the Governor to convene a meeting of the Central Board at any time and the Governor shall forthwith convene a meeting accordingly.

(3) The Governor, or in his absence the Deputy Governor authorized by the Governor under the proviso to sub-section (4) of section 8 to vote for him, shall preside at meetings of the Central Board, and, in the event of an equality of votes, shall have a second or casting vote.

14. (1) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at a place where there is an office of the Bank within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Central Board at any other time :

Provided that the annual general meeting shall not be held on two consecutive occasions at any one place.

(2) Any shareholder shall be entitled to attend at any general meeting, and each shareholder who has been registered on any register, for a period of not less than six months ending with the date of the meeting, as holding five shares shall have one vote, and each shareholder so registered as having more than five shares shall have one vote for each five shares, but subject to a maximum of ten votes ; and such votes may be exercised by proxy.

15. (1) The following provisions shall apply to the first constitution of the Central Board, and, notwithstanding anything contained in section 8, the Central Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(2) The first Governor and the first Deputy Governor or Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(3) The first eight Directors representing the shareholders on the various registers shall be nominated by the Governor General in Council from the areas served respectively by those registers, * * * and the Directors so nominated shall hold office until their successors shall have been duly elected as provided in sub-section (4).

(4) On the expiry of each successive period of twelve months after the nomination of Directors under sub-section (3) two Directors shall be elected in the manner provided in section 9 until all the Directors so nominated have been replaced by elected Directors holding office in accordance with section 8. The registers in respect of which the election is to be held shall be selected by lot from among the registers still represented by nominated Directors, and for the purposes of such lot the Madras and Rangoon registers shall be treated as if they comprised one register only.

16. As soon as may be after the commencement of this Act, the Central Board shall direct elections to be held and may make nominations, in order to constitute Local Boards in accordance with the provisions of section 9, and the members of such Local Boards shall hold office up to the date fixed under sub-section (6) of section 9, but shall not exercise any right under sub-section (7) of that section.

17. The Bank shall be authorized to carry on Business which the and transact the several Bank may transact. kinds of business hereinafter specified, namely :—

- (1) the accepting of money on deposit without interest from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, States in India, local authorities, banks and any other persons ;
- (2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn on and payable in India and arising out of *bona fide* commercial or trade transactions bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;
- (b) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the

marketing of crops, and maturing within nine months from the date of such purchase or rediscount, exclusive of days of grace :
* * * * *

- (c) the purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, or such securities of States in India as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;
- (3) (a) *the purchase from and sale to scheduled banks of sterling in amounts of not less than the equivalent of one lakh of rupees ;*
- (b) *the purchase, sale and rediscount of bills of exchange (including treasury bills) drawn in or on any place in the United Kingdom and maturing within ninety days from the date of purchase, provided that no such purchase, sale or rediscount shall be made in India except with a scheduled bank ; and*
- (c) *the keeping of balances with banks in the United Kingdom ;*
- (4) the making to States in India, local authorities, scheduled banks and provincial co-operative banks of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of—
- (a) stocks, funds and securities (other than immovable property) in which a trustee is authorized to invest trust money by any Act of Parliament or by any law for the time being in force in British India ;
- (b) gold * or silver or documents of title to the same ;
- (c) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank : * * * ;
* * * * * (d)
- (d) promissory notes of any scheduled bank (e) or a provincial co-operative bank, supported by documents of title to goods which have been transferred, assigned, * or pledged to any such bank as security for a cash credit granted for *bonâ fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops :
* * * * *
- (5) the making * * to the Governor General in Council and to such Local Governments as may have the custody and management of their own provincial revenues of advances repayable in each case not later than three months from the date of the making of the advance ;
- (6) the issue of demand drafts made payable at its own offices or agencies and the making, issue and circulation of bank post bills * * * ;

- (7) the purchase and sale of *Government securities of the United Kingdom* maturing within *ten years* from the date of such purchase, * * *
- (8) the purchase and sale of securities of the Government of India * * * or of a Local Government of *any maturity* * * * or of such securities of a *local authority in British India or of such States in India* * * * as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board :

Provided that securities fully guaranteed as to principal and interest by the Government of India, a Local Government, a local authority or a State in India shall be deemed for the purposes of this clause to be securities of such Government, authority or State :

Provided further that the amount of such securities held at any time in the Banking Department shall be so regulated that—

- (a) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and *three-fifths* of the liabilities of the Banking Department in respect of deposits ;
* * *
- (b) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and *two-fifths* of the liabilities of the Banking Department in respect of deposits ; and
- (c) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund *and one-fifth* of the liabilities of the Banking Department in respect of deposits ;
- (9) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities ;
- (10) the sale and realisation of all property, whether movable or immovable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims ;
- (11) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government or *local authority* or State in India in the transaction of any of the following kinds of business, namely :—
- (a) the purchase and sale of gold or silver ;
- (b) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company ;
- (c) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares ;

- (d) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere ;
- (e) the management of public debt ;
- (12) the purchase and sale of gold coin and bullion ;
- (13) the opening of an account with or the making of an agency agreement with, and the acting as agent or correspondent of, a bank which is the principal currency authority of any country under the law for the time being in force in that country ;
- (14) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed :

Provided that no money shall be borrowed under this clause from any person in India other than a scheduled bank, or from any person outside India other than a bank which is the principal currency authority of any country under the law for the time being in force in that country :

Provided further that the total amount of such borrowings from persons in India shall not at any time exceed the amount of the share capital of the Bank ;

- (15) the making and issue of bank notes subject to the provisions of this Act ; and
- (16) generally, the doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

18. When, in the opinion of the Central Board, Power of direct dis- or, where the powers and count. functions of the Central Board under this section have been delegated to a committee of the Central Board or to the Governor, in the opinion of such committee or of the Governor, as the case may be, a special occasion has arisen making it necessary or expedient that action should be taken under this section for the purpose of regulating credit in the interests of Indian trade, commerce, industry and agriculture, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) or sub-clause (a) or (b) of clause (3) or clause (4) of section 17,—

- (1) purchase, sell or discount any of the bills of exchange or promissory notes specified in sub-clause (a) or (b) of clause (2) or sub-clause (b) of clause (3) of that section though such bill or promissory note does not bear the signature of a scheduled bank or a provincial co-operative bank ; or
- (2) purchase or sell sterling in amounts of not less than the equivalent of one lakh of rupees ; or
- (3) make loans or advances repayable on demand or on the expiry of fixed periods not exceeding ninety days against the various forms of security specified in clause (4) of that section :

Provided that a committee of the Board or the Governor shall not, save in cases of special urgency, authorize action under this section without prior consultation with the Central Board and that in all cases action so authorized shall be reported to the members of the Central Board forthwith.

19. Save as otherwise provided in sections 17, 18 and 45, the Bank may not transact business which the Bank may not transact. not--

- (1) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims: provided that all such interests shall be disposed of at the earliest possible moment;
- (2) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares;
- (3) advance money on mortgage of, or otherwise on the security of, immovable property or documents of title relating thereto, or become the owner of immovable property, except so far as is necessary for its own business premises and residences for its officers and servants;
- (4) make loans or advances;
- (5) draw or accept bills payable otherwise than on demand;
- (6) allow interest on deposits or current accounts.

CHAPTER III.

CENTRAL BANKING FUNCTION.

20. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the public debt * * *

21. (1) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and, in particular, shall deposit free of interest all their cash balances with the Bank:

Provided that nothing in this sub-section shall prevent the Governor General in Council or any Local Government from carrying on money transactions * * * at places where the Bank has no branches or agencies, and the Governor General in Council and Local Governments may hold at such places such balances as they may require.

(2) The Governor General in Council and each Local Government shall entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans * * *.

(3) In the event of any failure to reach agreement on the conditions referred to in this section the Governor General in Council shall decide what the conditions shall be

(1) Any agreement under this section to which the Governor General in Council is a party shall be laid before the Central Legislature as soon as may be after it is made.

22. (1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period which shall be fixed by the Governor General in Council on the recommendation of the Central Board, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the aforesaid date the Governor General in Council shall not issue any currency notes

23. (1) The issue of bank notes shall be conducted by the Bank in an Issue Department. Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 34.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

24. Bank notes shall be of the denominational values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, unless otherwise directed by the Governor General in Council on the recommendation of the Central Board.

25. The design, form and material of bank notes shall be such as may be approved by the Governor General in Council after consideration of the recommendations made by the Central Board.

26. (1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or on account for the amount expressed therein, and shall be guaranteed by the Governor General in Council.

(2) The Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

27. * * * * *
Re-issue of notes. The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

28. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank the value of

any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note :

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in and the conditions and limitations subject to which the value of such currency notes or bank notes may be refunded as of grace.

29. The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of bank notes issued by it.

30. (1) If in the opinion of the Governor General in Council the Bank fails to carry out any of the obligations imposed on it by or under this Act, he may, by notification in the Gazette of India, declare the Central Board to be superseded, and thereafter he general superintendence and direction of the affairs of the Bank shall be entrusted to such agency as the Governor General in Council may determine, and such agency may exercise the powers and do all acts and things which may be exercised or done by the Central Board under this Act.

(2) When action is taken under this section the Governor General in Council shall cause a full report of the circumstances leading to such action and of the action taken to be laid before the Central Legislature at the earliest possible opportunity and in any case within three months from the issue of the notification superseding the Board.

31. No person in British India other than the Bank or, as expressly authorized by this Act, the Governor General in Council shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such person :

Provided that cheques or drafts, including hundis, payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

32. (1) Any person contravening the provisions of section 31 shall be punishable with fine which may extend to the amount of the bill, hundi, note or engagement in respect whereof the offence is committed.

(2) No prosecution under this section shall be instituted except on complaint made by the Bank.

33. (1) The assets of the Issue Department shall consist of gold coin, gold bullion, sterling securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(2) Of the total amount of the assets, not less than two-fifths shall consist of gold coin, gold bullion or sterling securities :

Provided that the amount of gold coin and gold bullion shall not at any time be less than forty crores of rupees in value.

(3) The remainder of the assets shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange

and promissory notes * * * payable in British India as are eligible for purchase by the Bank under sub-clause (a) or sub-clause (b) of clause (2) of section 17 or under section 18 :

Provided that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the assets or fifty crores of rupees, whichever amount is greater, or, with the previous sanction of the Governor General in Council, such amount plus a sum of ten crores of rupees.

(4) For the purposes of this section, gold coin and gold bullion shall be valued at 8·47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and securities shall be valued at the market rate for the time being obtaining.

(5) Of the gold coin and gold bullion held as assets, not less than seventeen-twentieths shall be held in British India, and all gold coin and gold bullion held as assets shall be held in the custody of the Bank or its agencies :

Provided that gold belonging to the Bank which is in any other bank or in any mint of treasury or in transit may be reckoned as part of the assets.

(6) For the purposes of this section, the *sterling securities* * * * which may be held as part of the assets shall be securities of any of the following kinds payable in the currency of the *United Kingdom*, namely :—

- (a) balances at the credit of the Issue Department with *the Bank of England* ;
- (b) bills of exchange bearing two or more good signatures and drawn on and payable at *any place in the United Kingdom* and having a maturity not exceeding ninety days ;
- (c) *Government securities of the United Kingdom* maturing within five years * * :

Provided that, for a period of two years from the date on which this Chapter comes into force, * any of such last mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17 * *

34. (1) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation.

(2) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall, notwithstanding anything contained in subsection (2) of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be ; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

35. On the date on which this Chapter comes into force the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation and the Governor General in Council shall transfer to the Issue Department gold coin, gold bullion, *sterling* securities * * *, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 33 :

Provided that the total amount of the gold coin, gold bullion and *sterling* securities * * * * * so transferred shall not be less than one-half of the whole amount transferred, and that the amount of rupee coin so transferred shall not exceed fifty crores of rupees :

Provided further that the whole of the gold coin and gold bullion held by the Governor General in Council in the gold standard reserve and the paper currency reserve at the time of transfer shall be so transferred.

36. (1) After the close of any financial year Method of dealing with in which the minimum fluctuations in rupee coin amount of rupee coin held assets. in the assets, as shown in any of the weekly accounts of the Issue Department for that year prescribed under sub-section (1) of section 53, is greater than fifty crores of rupees or one-sixth of the total amount of the assets as shown in that account, whichever may be the greater, the Bank may deliver to the Governor General in Council rupee coin up to the amount of such excess but not without his consent exceeding five crores of rupees, against payment of legal tender value in the form of bank notes, gold or securities :

Provided that if the Bank so desires and if the amount of gold coin, gold bullion and *sterling* securities * * * * * in the assets does not at that time exceed one-half of the total assets, a proportion not exceeding two-fifths of such payment shall be in gold coin, gold bullion or such *sterling* securities * * * * * as may be held as part of the assets under sub-section (6) of section 33.

(2) After the close of any financial year in which the maximum amount of rupee coin held in the assets, as so shown, is less than *fifty* crores of rupees or one-sixth of the total amount of the assets, as so shown, whichever may be the greater, the Governor General in Council shall deliver to the Bank rupee coin up to the amount of such deficiency, but not without its consent exceeding five crores of rupees, against payment of legal tender value.

37. (1) Notwithstanding anything contained in Suspension of assets the foregoing provisions, requirements. the Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold as assets gold coin, gold bullion or *sterling* securities * * * * * of less aggregate amount than that required by sub-section (2) of section 33 and, whilst the holding is so

reduced, the proviso to that sub-section shall cease to be operative :

Provided that the gold coin and gold bullion held as such assets shall not be reduced below the amount specified in the proviso to sub-section (2) of section 33 so long as any sterling securities remain held as such assets.

(2) In respect of any period during which the holding of gold coin, gold bullion and sterling securities * * * is reduced under sub-section (1), the Bank shall pay to the Governor General in Council a tax upon the amount by which such holding is reduced below the minimum prescribed by sub-section (2) of section 33 ; and such tax shall be payable at the bank rate for the time being in force, with an addition of one per cent. per annum when such holding exceeds thirty-two and a half per cent. of the total amount of the assets and of a further one and a half per cent. per annum in respect of every further decrease of two and a half per cent. or part of such decrease :

Provided that the tax shall not in any event be payable at a rate less than six per cent. per annum.

38. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 36 nor to put into circulation any * rupees, except through the Bank and as provided in that section ; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

39. (1) The Bank shall issue rupee coin on demand in exchange for bank notes and currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act, 1906.

(2) The Bank shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or * * * other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation ; and the Governor General in Council shall * * * supply such * * * coins to the Bank on demand. If the Governor General in Council at any time fails to supply such coins, the Bank shall be released from its obligations to supply them to the public.

40. The Bank shall sell, to any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and pays the purchase price in legal tender currency, sterling for immediate delivery in London, at a rate not below one shilling and five pence and forty-nine sixty-fourths of a penny for a rupee :

Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds.

41. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon,

sterling for immediate delivery in London, at a rate not higher than one shilling and six pence and three-sixteenths of a penny for a rupee :

Provided that no person shall be entitled to demand to sell an amount of sterling less than ten thousand pounds :

Provided further that no person shall be entitled to receive payment unless the Bank is satisfied that payment of the sterling in London has been made.

42. (1) Every bank included in the Second Schedule shall maintain Cash reserves of scheduled banks to be kept with the Bank. * * * with the * Bank a balance the amount of which shall not at the close of business on any day be less than five per cent. of the demand liabilities and two per cent. of the time liabilities of such bank in India as shown in the return referred to in sub-section (2).

Explanation.—For the purposes of this section liabilities shall not include the paid-up capital or the reserves, or any credit balance in the profit and loss account of the bank or the amount of any loan taken from the Reserve Bank.

(2) Every scheduled bank shall send to the Governor General in Council and to the Bank a * return signed by two responsible officers of such bank showing—

- (a) the amounts of its demand and time liabilities, respectively, in India,
- (b) the total amount held in India in currency notes of the Government of India and bank notes,
- (c) the amounts held in India in rupee coin and subsidiary coin, respectively,
- (d) the amounts of advances made and of bills discounted in India, respectively, and
- (e) the balance held at the Bank,

at the close of business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, 1881, at the close of business on the next working day; and such return shall be sent not later than three days after the date to which it relates: XXVI of 1881.

Provided that where the Bank is satisfied that the furnishing of a weekly return under this sub-section is impracticable in the case of any scheduled bank by reason of the geographical position of the bank and its branches, the Bank may require such bank to furnish in lieu of a weekly return a monthly return to be dispatched not later than fourteen days after the end of the month to which it relates giving the details specified in this sub-section in respect of such bank at the close of business for the month.

(3) If at the close of business on any day before (6) the day fixed for the next return, the balance held at the Bank by any scheduled bank is below the minimum prescribed in sub-section (1), such scheduled bank shall be liable to pay to the Bank in respect of each such day penal interest at a rate three per cent. above the bank rate on the amount by which the balance with the Bank falls short of the prescribed minimum, and if on the day fixed for the next return such balance is still below the prescribed minimum as disclosed by this return, the rates of penal interest shall be increased to a rate five per cent. above the bank rate in respect of that day and each subsequent day on which the balance held at the Bank at the close of business on that day is below the prescribed minimum.

(4) Any scheduled bank failing to comply with (5) the provisions of sub-section (2) shall be liable to pay to the Governor General in Council or to the Bank, as the case may be, or to each, a penalty of one hundred rupees for each day during which the failure continues.

(5) The penalties imposed by sub-sections (3) (6) and (4) shall be payable on demand made by the Bank, and in the event of a refusal by the defaulting bank to pay on such demand, may be levied by a direction of the principal Civil Court having jurisdiction in the area where an office of the defaulting bank is situated, such direction to be made only upon application made in this behalf to the Court by the Governor General in Council in the case of a failure to make a return under sub-section (2) to the Governor General in Council, or by the Bank with the previous sanction of the Governor General in Council in other cases.

(6) The Governor General in Council shall, by (7) notification in the Gazette of India, direct the inclusion in the Second Schedule of any bank not already so included which carries on the business of banking in British India and which—

(a) has a paid-up capital and reserves of an aggregate value of not less than five lakhs— of rupees, and

(b) is a bank as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or a corporation or a company incorporated by or under any law in force in any place outside British India,

VII of 1913.

and shall by a like notification direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserve becomes at any time less than five lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

43. The Bank shall compile and shall 42A.

Publication of consoli- cause to be published each dated statement by the week a consolidated state- Bank. ment showing the aggregate of the amounts under each clause of sub-section (2) of section 42 exhibited in the returns received from scheduled banks under that section.

44. The Bank may require any provincial co- 42B.

Power to require re- operative bank with which turns from co-operative it has any transactions banks. under section 17 to furnish the return referred to in sub-section (2) of section 42, and if it does so, the provisions of sub-sections (4) and (5) of section 42 shall apply so far as may be to such co-operative bank as if it were a scheduled bank.

45. (1) The Bank shall enter into an agreement 43.

Agreement with the with the Imperial Bank of India which shall be sub- Imperial Bank. ject to the approval of the Governor General in Council, and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for fifteen years and thereafter until terminated after five years' notice on either side, and shall further contain the provisions set forth in the Third Schedule,

Provided that the agreement shall be conditional on the maintenance of a sound financial position by the Imperial Bank and that if, in the opinion of the Central Board, the Imperial Bank has failed either to fulfil the conditions of the agreement or to maintain a sound financial position, the Central Board shall make a recommendation to the Governor General in Council, and the Governor General in Council, after making such further

enquiry as he thinks fit, may issue instructions to the Imperial Bank with reference either to the agreement or to any matter which in his opinion involves the security of the Government monies or the assets of the Issue Department in the custody of the Imperial Bank, and in the event of the Imperial Bank disregarding such instructions may declare the agreement to be terminated.

(2) The agreement referred to in sub-section (1) shall, as soon as may be after it is made, be laid before the Central Legislature.

CHAPTER IV.

GENERAL PROVISIONS.

46. The Governor General in Council shall 43A.
 Contribution by Govern- transfer to the Bank rupee
 or General in Council to securities of the value of
 the Reserve Fund. five crores of rupees to be
 allocated by the Bank to the Reserve Fund.

47. After making provision for bad and doubt- 44.
 Allocation of surplus. ful debts, depreciation in
 assets, contributions to
 staff and superannuation funds, and such other
 contingencies as are usually provided for by
 bankers, and after payment out of the net annual
 profits of a cumulative dividend at such rate not
 exceeding five per cent. per annum on the share
 capital as the Governor General in Council
 may fix at the time of the issue of shares, a
 portion of the surplus shall be allocated * * —

* * * * *
 * * * * *
 * * * to the payment of an additional
 dividend to the shareholders calculated
 or the scale set forth in the Fourth
 Schedule and the balance of the surplus
 shall be paid to the Governor General
 in Council :

Provided that if at any time the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.

48. (1) Notwithstanding anything contained in 44A.
 the Indian Income-tax
 Act, 1922, or any other XI of 1922.
 Exemption of Bank from income-tax and super-tax and provision for deduction at source of income-tax on dividends. enactment for the time being in force relating to income-tax or super-tax, the Bank shall not be liable to pay income-tax or super-tax on any of its income, profits or gains :

Provided that nothing in this section shall affect the liability of any shareholder in respect of income-tax or super-tax.

(2) For the purposes of section 18 of the Indian Income-tax Act, 1922, and of any other relevant XI of 1922. provision of that Act relating to the levy and refund of income-tax any dividend paid under section 44 of this Act shall be deemed to be "Interest on Securities".

49. The Bank shall make public from time to 45.
 Publication of bank time the standard rate at
 rate. which it is prepared to
 buy or re-discount bills of
 exchange or other commercial paper eligible for
 purchase under this Act.

50. (1) Not less than two auditors shall be ^{45.}
 Auditors. elected and their remuneration fixed at the annual general meeting. The auditors may be shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(2) The first auditors of the Bank may be appointed by the Central Board before the first annual general meeting and, if so appointed, shall hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections :

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Central Board.

51. Without prejudice to anything contained ^{47.}
 Appointment of special in section 50, the Gov-
 auditors by Government. ernor General in Council may at any time appoint *the Auditor General* or such auditors as he thinks fit to examine and report upon the accounts of the Bank.

52. (1) Every auditor shall be supplied with ^{48.}
 Powers and duties of a copy of the annual
 auditors. balance-sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto ; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(2) The auditors shall make a report to the shareholders or to the Governor General in Council, as the case may be, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case they have called for any explanation or information from the Central Board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Central Board, at the annual general meeting.

53. (1) The Bank shall prepare and transmit ^{49.}
 Returns. to the Governor General in Council a weekly account of the Issue Department and of the Banking Department in the form set out in the Fifth Schedule or in such other form as the Governor General in Council may, by notification in the Gazette of India, prescribe. The Governor General in Council shall cause these accounts to be published weekly in the Gazette of India.

(2) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a copy of the annual accounts signed by the Governor, the Deputy Governors and the

Chief Accounting Officer of the Bank, and certified by the auditors, together with a report by the Central Board on the working of the Bank throughout the year, and the Governor General in Council shall cause such accounts and report to be published in the Gazette of India.

(3) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a statement showing the name, address and occupation of, and the number of shares held by, each shareholder of the Bank.

54. (1) *The Bank shall, at the earliest practicable date and in any case within three years from the date on which this Chapter comes into force, make to the Governor General in Council a report, with proposals, if it thinks fit, for legislation, on the following matters, namely:—*

- (a) *the extension of the provisions of this Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking, and*
- (b) *the establishment of a Rural Credit Department of the Bank or the creation of other machinery for effecting a closer connection between agricultural enterprise and the operations of the Bank.*

(2) *When the Bank is of opinion that the international monetary position has become sufficiently clear and stable to make it possible to determine what will be suitable as a permanent basis for the Indian monetary system and to frame permanent measures for a monetary standard it shall report its views to the Governor General in Council.*

55. (1) *The Local Board of any area may at any time require any shareholder who is registered on the register for that area to furnish to the Local Board within a specified time, not being less than thirty days, a declaration, in such form as the Central Board may by regulations prescribe, giving particulars of all shares on the said register of which he is the owner.*

(2) *If it appears from such declaration that any shareholder is not the owner of any shares which are registered in his name, the Local Board may amend the register accordingly.*

(3) *If any person required to make a declaration under sub-section (1) fails to make such declaration within the specified time, the Local Board may make an entry against his name in the register recording such failure and directing that he shall have no right to vote, either under section 9 or section 14, by reason of the shares registered in his name on that register.*

(4) *Whoever makes a false statement in any declaration furnished by him under sub-section (1) shall be deemed to have committed the offence of giving false evidence defined in section 191 of the Indian Penal Code, and shall be punishable under the second paragraph of section 193 of that Code. XLV of 1860.*

(5) *Until Local Boards have been constituted under section 9 the powers of a Local Board under this section shall be exercised by the Central Board in respect of any area for which a Local Board has not been constituted.*

56. (1) Nothing in the Indian Companies Act, 1913, shall apply to the Bank, and the Bank shall not be placed in liquidation save by order of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent. and twenty-five per cent., respectively :

Provided that the total amount payable to any shareholder under this section shall not exceed the paid-up value of the shares held by him by more than one per cent. for each year after the commencement of this Act subject to a maximum of twenty-five per cent.

57. (1) The Central Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely :—

- (a) the holding and conduct of elections under this Act, including, if the Central Board thinks fit, provisions for the holding of any elections according to the principle of proportional representation by means of the single transferable vote ;
- (b) the final decision of doubts or disputes regarding the qualifications of candidates for election or regarding the validity of elections ;
- (c) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally, all matters relating to the rights and duties of shareholders ;
- (d) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which votes may be exercised ;
- (e) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons ;
- (f) the manner in which the business of the Central Board shall be transacted, and the procedure to be followed at meetings thereof ;
- (g) the conduct of business of Local Boards and the delegation to such Boards of powers and functions ;
- (h) the delegation of powers and functions of the Central Board to the Governor, or to Deputy Governors, Directors or officers of the Bank ;
- (i) the formation of Committees of the Central Board, the delegation of powers and functions of the Central Board to such Committees, and the conduct of business in such Committees ;
- (j) the constitution and management of staff and superannuation funds for the officers and servants of the Bank ;

- (k) the manner and form in which contracts binding on the Bank may be executed ;
- (l) the provision of an official seal of the Bank and the manner and effect of its use ;
- (m) the manner and form in which the balance-sheet of the Bank shall be drawn up, and in which the accounts shall be maintained ;
- (n) the remuneration of Directors of the Bank ; (mm)
- (o) the relations of the scheduled banks with the Bank and the returns to be submitted by the scheduled banks to the Bank ; (mmm)
- (p) the regulation of clearing-houses for the scheduled banks ; (mmmm)
- (q) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded ; and (n)
- (r) generally, for the efficient conduct of the business of the Bank. (o)

(3) Copies of all regulations made under this section shall be available to the public on payment.

58. In the Indian Coinage Act, 1906, for section 11 the following section shall be substituted, namely :—

“ 11. Gold coins, coined at His Majesty's Royal Mint in England or at any mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices, branches and agencies in India at the bullion value of such coins calculated at the rate of 8.47512 grains troy of fine gold per rupee.”

59. The Indian Paper Currency Act, 1923, the Indian Paper Currency (Amendment) Act, 1923, and the Currency Act, 1927, are hereby repealed.

X of 1923.
64.
XXXVI of 1923.
II of 1925.
IV of 1927.

THE FIRST SCHEDULE.

[See section 4.]

AREAS SERVED BY THE VARIOUS SHARE REGISTERS.

- I. The WESTERN AREA, served by the BOMBAY Register, shall consist of—
the Bombay Presidency including Sind, the Central Provinces, Berar, Hyderabad, Baroda, Khairpur, the Western India States, the Central India States (including Makrai but excluding Rewah and other States of Bundelkhand and Baghelkhand), the Gujerat States, Kolhapur and the Deccan States.
- II. The EASTERN AREA, served by the CALCUTTA Register, shall consist of—
the Bengal Presidency, Bihar and Orissa, Assam, Sikkim, Manipur, Cooh-Behar, Tripura, the Eastern States, Rewah and other States of Bundelkhand and Baghelkhand, and the Khasi States.
- III. The NORTHERN AREA, served by the DELHI Register, shall consist of—
the United Provinces, Delhi, the Punjab, the North-West Frontier Province, Ajmer-Merwara, Baluchistan, Kashmir, the Punjab States excluding Khairpur, the Simla Hill States, Dujana, Pataudi, Kalsia, Rampur, Tehri-Garhwal, Benares, the Rajputana States including Palanpur and Danta, Gwalior, Khaniadhana, Kalat, Las Bela, Hunza, Nagir, Amb, Chitral, Dir, Phulera and Swat.
- IV. The SOUTHERN AREA, served by the MADRAS Register, shall consist of—
the Madras Presidency, Coorg, Mysore and the Madras States.
- V. The BURMA AREA, served by the RANGOON Register, shall consist of—
Burma, the Andaman and Nicobar Islands, Bawlake, Kantarawadi, and Kyebugyi.

THE SECOND SCHEDULE.

[See section 42 and section 2 (e).]

SCHEDULED BANKS.

Ajodhia Bank, Fyzabad.	Jalpaiguri Banking and Trading Corporation.
Allahabad Bank.	Karnani Industrial Bank.
American Express Company Incorporated.	* * *
Banco Nacional Ultramarino.	Lloyds Bank.
Bangalore Bank.	* * *
Bank of Baroda.	Mercantile Bank of India.
Bank of Behar.	Mitsui Bank, Bombay.
Bank of Chettinad, Madras.	Muffassil Bank, Gorakhpur.
Bank of Hindustan, Madras.	* * *
Bank of India, Bombay.	* * *
* * *	National Bank of India.
Bank of Mysore.	National City Bank of New York.
Bank of Taiwan.	Nederlandsche Indische Handels-bank.
Bank of Upper Burma.	Nederlandsche Handel-Maatschappij.
* * *	Nedungadi Bank, Calicut.
Benares Bank.	Oudh Commercial Bank.
Bengal Central Bank.	Peoples' Bank of Northern India.
* * *	* * *
Bhagwan Das & Co., Dehra Dun.	P. and O. Banking Corporation.
* * *	* * *
* * *	Punjab and Sind Bank, Amritsar.
Canara Bank.	Punjab Co-operative Bank, Amritsar.
* * *	Punjab National Bank, Lahore.
Central Bank of India.	* * *
Chartered Bank of India, Australia and China.	* * *
* * *	* * *
* * *	Simla Banking and Industrial Company.
Comptoir National d'Escompte de Paris.	* * *
Eastern Bank.	* * *
* * *	Thomas Cook & Sons.
Grindlay and Company.	* * *
Hongkong and Shanghai Banking Corporation.	Travancore National Bank, Tiruvalla.
Imperial Bank of India.	Union Bank of India, Bombay.
Imperial Bank of Persia.	U. Rai Gyaw Thoo and Co., Akyab.
Indian Bank, Madras.	Yokohama Specie Bank.
Industrial Bank of Western India, Ahmedabad.	

THE THIRD SCHEDULE.

(See section 45.)

Provisions to be contained in the agreement between the Reserve Bank of India and the Imperial Bank of India.

1. The Imperial Bank of India shall be the sole agent of the Reserve Bank of India at all places in British India where * * * there is a branch of the Imperial Bank of India which was in existence at the commencement of the Reserve Bank of India Act, 1933, and there is no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance at the places referred to in clause 1 by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council * * * before the coming into force of the Reserve Bank of India Act, 1933, the Reserve Bank of India shall pay to the Imperial Bank of India as remuneration a sum which shall be for the first ten years during which this agreement is in force a commission calculated at one-sixteenth of one per cent. on the first 250 crores and one thirty-second of one per cent. on the remainder of the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India. At the close of the said ten years the remuneration to be paid by the Reserve Bank of India to the Imperial Bank of India for the performance of these functions shall be revised and the remuneration for the ensuing five years shall be determined on the basis of the actual cost to the Imperial Bank of India, as ascertained by expert accounting investigation, of performing the said functions. The remuneration so determined shall thereafter be subject to revision in like manner at the end of each period of five years so long as this agreement remains in force. If any dispute arises between the Reserve Bank of India and the Imperial Bank of India as to the amount of the said remuneration the matter shall be referred for final decision to the Governor General in Council who may require from the Imperial Bank such information and may order such accounting investigation as he thinks fit.

3. In consideration of the maintenance by the Imperial Bank of India of branches not less in number than those existing at the commencement of the Reserve Bank of India Act, 1933, the Reserve Bank of India shall, until the expiry of fifteen years from the coming into force of this agreement, make to the Imperial Bank of India the following payments, namely:—

- (a) during the first five years of this agreement—nine lakhs of rupees per annum ;
- (b) during the next five years of the agreement—six lakhs of rupees per annum ; and
- (c) during the next five years of the agreement—four lakhs of rupees per annum ; *
- (d) * * * * *

4. The Imperial Bank of India shall not without the approval of the Reserve Bank of India open any branch in substitution for a branch existing at the time this agreement comes into force.

THE FOURTH SCHEDULE.

(See section 47.)

Scale of additional dividend payable to shareholders.

A. If the maximum rate of dividend fixed under section 47 is five per centum and so long as the share capital of the Bank is five crores of rupees—

- (1) if the surplus does not exceed four crores of rupees—Nil ;
- (2) if the surplus exceeds four crores of rupees—
 - (a) out of such excess up to the first one and a half crores of rupees—a fraction equal to one-sixtieth ;
 - (b) out of each successive additional excess up to one and a half crores of rupees—one-half of the fraction payable out of the next previous one and a half crores of excess :

Provided that the additional dividend shall be a multiple of one-eighth of one per cent. on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent. on the share capital.

B. If the maximum rate of dividend fixed under section 47 is below five per centum, the said fraction of one-sixtieth shall be increased in the ratio of the difference between six and the fixed rate to unity.

C. When the original share capital of the Bank has been increased or reduced, the said fraction of one-sixtieth shall be increased or diminished in proportion to the increase or reduction of the share capital.

THE FIFTH SCHEDULE.

(See section 53.)

RESERVE BANK OF INDIA.

An Account pursuant to the Reserve Bank of India Act, 1933, for the week ending on the _____ day of _____
ISSUE DEPARTMENT.

<i>Liabilities.</i>	Rs.	<i>Assets.</i>	Rs.
Bank Notes held in the Banking Department		A. Gold coin and bullion—	
Bank Notes in circulation		(a) held in India	
Total Bank Notes issued		(b) held outside India	
Government of India Notes in circulation		Sterling Securities * * *	
		Total of A	<u> </u>
		B. Rupee coin	
		Government of India rupee securities	
		Internal bills of exchange and other commer- cial paper	
		Total Assets	<u> </u>
	<u> </u>		
Total Liabilities	<u> </u>		

Ratio of total of A to liabilities per cent.

Dated the _____ day of _____ 19

BANKING DEPARTMENT.

<i>Liabilities.</i>	Rs.	<i>Assets.</i>	Rs.
Capital paid up		Notes	
Reserve Fund		Rupee coin	
Deposits—		Subsidiary coin	
(a) Government		Bills discounted—	
(b) Banks		(a) Internal	
(c) Others		(b) External ¹	
Bills payable		(c) Government of India Treasury Bills	
Other liabilities		Balances held abroad	
		Loans and advances to the Government	
		Other loans and advances	
		Investments	
		Other assets	
	<u> </u>		<u> </u>

Dated the _____ day of _____ 19

GOVERNMENT OF INDIA.
LEGISLATIVE ASSEMBLY
DEPARTMENT.

Report of the Joint Committee on
the Bill to constitute a Reserve
Bank of India, with the Bill as
amended.

LEGISLATIVE ASSEMBLY.

WE, the undersigned, members of the Joint Committee to which the Bill to amend the Imperial Bank of India Act was referred, have considered the Bill and have now the honour to submit this our Report, with the Bill as amended by us annexed thereto.

2. We first met in Simla on the 19th September 1933 to elect our Chairman and settle some preliminary points of procedure. We then met in New Delhi and sat continuously from the 23rd October until 16th November, 1933.

3. The clauses of the Bill have been renumbered but the original numbering which it is found convenient to retain in the Report has been reproduced in the margin of the Bill as now printed.

4. We deal below with the Bill clause by clause—

Clause 2.—We have made a verbal alteration here.

Clause 4 (2).—This deals with section 10 (2) of the Imperial Bank of India Act. We see no reason for the retention of sub-section (2) (b) of that section relating to the opening of new branches because it seems to us to be sufficiently covered by provision 3 of the Third Schedule to the Reserve Bank Bill.

We also consider that there should be some provision on the analogy of sub-section (2) (a) giving the Governor General in Council power to terminate the agreement between the Reserve Bank and the Imperial Bank if the latter should not maintain a satisfactory financial position or if there should be a breach of the agreement between the two. We consider, however, that the place to provide for this is in the Reserve Bank Bill and have added an amendment accordingly to clause 43 of that Bill. We therefore recommend the abolition of the whole of section 10 (2) of the Imperial Bank of India Act.

Clause 6A.—We have made two minor amendments—

- (1) consequential on the omission of the Explanation in section 13 of the Act proposed in clause 6 of this Bill, and
- (2) adding to the definition of "co-operative societies" in view of the fact that there are now several Provincial Acts dealing with such societies.

Clause 6B.—We consider it desirable that the Imperial Bank of India should follow the same practice as ordinary companies in submitting its principal register of shareholders to the officer who performs the duty of registration of companies under the Indian Companies Act, 1913.

Clause 7A.—We consider that the title "Governor" should in future be reserved to the Governor and Deputy Governors of the Reserve Bank and that the words "Managing Director", "Deputy Director" and "Director" should be substituted for the words "Managing Governor", "Deputy Governor" and "Governor" wherever they appear in the Imperial Bank Act.

Clause 9.—We recommend the following amendments in section 28 of the Act which deals with the composition of the Central Board :—

- (1) With the abolition or reduction of the Directors nominated by Government the Board will be too small to ensure effective representation of all the interests concerned and we recommend that a third Director should be elected by each Local Board to represent it, in addition to the President and Vice-President.
- (2) To ensure the representation of interests which might otherwise be unrepresented, primarily agricultural, the Governor General in Council should retain the right to nominate Directors to a number not exceeding two. This right need not be exercised if these interests secure representation through election.
- (3) In view of the important Government financial interests involved, Government should maintain a liaison officer in place of the Government officer who is at present a Governor of the Bank. This officer should be entitled to attend all Board meetings—though without any right to vote—and to be supplied with all the information which he may desire as to the Bank's affairs. Though we recognise that in future the relationship of the Imperial Bank will be primarily with the Reserve Bank and not with Government, we consider that such an officer is necessary and that he should be appointed by Government and not by the Reserve Bank.

Clause 10A.—We have made some amendments consequential on our amendment in 7A.

We have made a verbal amendment to make section 31 (1) (c) clearer.

Clause 11.—We considered a suggestion that the Imperial Bank of India should be authorised to make direct advances against immoveable property. In support of this suggestion it was pointed out to us that at present the Bank was in the habit of making advances upon the security of immoveable property as collateral and that in

certain cases these advances are allowed to become in effect advances on the security of immoveable property. We consider that it should not be the business of the Imperial Bank to make advances on the security of immoveable property as such a practice might involve locking up its funds in a manner inconsistent with its functions and liabilities as a deposit Bank. We do not therefore accept the suggestion to enlarge the powers of the Bank in this respect. If, however, this principle is accepted then it must be consistently observed not only in the letter but in the spirit. We should consider it an abuse of this principle if the Bank were in any case to make advances which although they might nominally be made within the limits laid down and on approved securities were nevertheless really made not on such justification but in reliance on the possibility of taking charges on immoveable property as collateral. We consider that it should be one of the duties of the Government liaison officer nominated under clause 9 of the Bill to watch whether there is any abuse by the Bank of the powers in the manner described above and to report the matter to the Government of India for such action as may be necessary.

We also considered in this connection a proposal to provide in the Act for the making of advances against promissory notes of Central Co-operative Banks. We did not think it necessary to make any such specific provision as we were assured by the representative of the Imperial Bank who appeared before us that legitimate business of this kind was covered by their present powers to give fixed advances against two-name paper.

Clause 11 (1) (a).—We have made an addition to enable the Bank to hold shares of the Reserve Bank of India which they as a scheduled bank will be permitted to do by clause 4 (3) (c) of the Reserve Bank Bill.

Sub-clause (c).—After discussion with other bankers, the representatives of the Imperial Bank agreed to delete fully paid shares of companies with limited liability from the proposed sub-clause (iii a) and we have amended the sub-clause accordingly with a further consequential amendment in sub-clause (d).

Sub-clause (cc).—We have made drafting amendments to make the present position clearer.

Sub-clause (d).—*Vide* comment on sub-clause (c).

Sub-clause (ee).—In the Reserve Bank Bill we have recommended an amendment to enable advances to be made to finance seasonal agricultural operations for a maximum period of nine months as against six, the period indicated in the original Bill. The Imperial Bank wished to have a similar latitude and we agree that this is desirable.

Sub-clause (hh).—This power has been given at the request of the Imperial Bank of India.

Sub-clause (l).—*Vide* comment on sub-clause (ee).

Sub-clause (1A).—*Vide* comment on sub-clause (ee).

Sub-clause (2)—*vide* comment on sub-clause (ee). This drafting amendment has been made at the instance of the representatives of the Imperial Bank to make the position clearer.

Clause 11A.—The amendment in this clause has been made at the instance of the representative of the Imperial Bank of India with a view to making regulation 9 more easily workable in practice.

Clause 12.—We do not agree that the Bank should have the power which the Bill in its original form would have given them to decline to register the transfer of fully paid shares. This is not a right which we consider it desirable that they or any limited liability company should possess.

Clause 13.—We have made a verbal amendment.

Clause 16.—We have made a verbal amendment and substituted the word "Director" for "Governor" wherever it appears—*vide* comments on clause 7A.

Clause 17.—We have added a sub-clause to bring the procedure for the requisition of special meetings into accord with that prescribed in the Companies Act by fixing a limit within which the Directors must summon a meeting, failing which the shareholders will be able to convene one themselves. In this clause we have also made consequential alterations necessitated by the amendment proposed in clause 7A.

Clause 19.—We have made amendments consequential on the amendments proposed in clause 7A.

Clause 20.—We have made amendments consequential on our recommendation in clause 9 relating to the nomination of Directors by the Governor General in Council.

Sub-clause (c).—We have made an alteration at the instance of the representatives of the Bank to make it clearer how the limitation on simultaneous membership of the Central or Local Boards should apply.

Clause 21.—Here too we have made an amendment consequential on the retention of nominated Directors suggested in clause 9. We have also made alterations consequential on our recommendation in clause 7A.

Clause 22.—The Central Board of the Imperial Bank has represented to us that it is inconvenient to hold meetings of the Central Board as frequently as once in every three months. We have amended the period to four months accordingly but have provided that there shall be four meetings during the year. We have made other amendments of a drafting nature to make clearer the intention of this section and to carry out the alterations indicated by us in clause 7A.

Clause 23.—We have made provision here for the election of the third member of the Local Boards which we have recommended in clause 9. We have also omitted the proviso as unnecessarily

restrictive. In sub-clause (2) we have also proposed two minor amendments with the object of making the intention clearer.

Clause 26.—We have added this routine power at the request of the representatives of the Imperial Bank. We have also made a verbal amendment consequential on our recommendation in clause 7A.

Clause 30.—We do not consider it reasonable that this should be restricted to British India and have substituted "India" accordingly.

5. The Bill was published in the Gazette of India dated the 16th September, 1933. We think that the Bill has not been so altered as to require re-publication, and we recommend that it be passed as now amended.

GEORGE SCHUSTER.
 COWASJI JEHangIR.
 *SANT SINGH.
 MOHD. YAMIN KHAN.
 HOMI MEHTA.
 G. NARAYANASWAMI CHETTY.
 L. HUDSON.
 J. S. HENDERSON.
 S. R. PANDIT.
 S. R. M. ANNAMALAI CHETTY.
 S. M. PADSHAH.
 MAHMOOD SUHRAWARDY.
 CHARANJIT SINGH.
 MOHD. HAYAT NOON.
 *B. K. BASU.
 *NRIPENDRANARAYAN SINHA.
 *MATHURA PRASAD MEHROTRA.
 S. C. MITRA.
 BHUPUT SING.
 ABDULLA-AL-MAMUN SUHRAWARDY.
 GAYA PRASAD SINGH.
 MOHD. AZHAR ALI.
 *HOSSAIN IMAM.
 NIHAL SINGH.
 RAM SARAN DAS.
 VIDYA SAGAR PANDYA.
 B. DAS.
 J. B. TAYLOR.

MINUTES OF DISSENT.

We, the undersigned members of the Joint Committee, to which the Imperial Bank of India (Amendment) Bill of 1933 was referred, beg to append the following Minute of Dissent to the Report that we have signed.

As regards clause 9 of the Bill, we are of opinion that in section 28 (i) power should be given to the Local Boards to elect an alternate member in the place of any one of the members of such Local Boards, who may not be able to attend any particular meeting of the Central Board, instead of

the provision of electing an additional member as suggested in the Report.

We further desire that the power of nomination given to the Governor General in Council in section 28 (iv) should be made mandatory, and the word "may" should be changed into "shall".

We also desire that sub-clause (vi) of section 28 should be deleted and power may be reserved to the Central Board to permit the Secretaries of the Local Boards to attend the meetings of the Central Board to give such information that the Central Board may require.

B. K. BASU.

NRIPENDRANARAYAN SINHA.

H. IMAM.

MATHURA PRASAD MEHROTRA.

November 17, 1933.

I dissent from the suggestion of the Committee in the final draft that loans should not be advanced on the security of immoveable property. The Committee first decided by the majority of votes that such loans should be advanced but this question was allowed to be re-opened on the 16th November on the representation of the Imperial Bank at a time the draft report was being discussed. The Joint Committee then reversed its own finding. The procedure of re-opening the question was unique in this case, as my suggestion of re-opening the question, that out of the two posts of a Governor and a Deputy Governor one should go to Indian, was ruled out of order.

The recommendation in prohibiting the Imperial Bank from advancing loans on the security of immoveable property has placed the landlords at the mercy of Bohras and other money-lending classes who charge exorbitant rate of interest, sometimes amounting to 30 to 40 per cent. As a result of this exorbitant rate, the land is passing very quickly from landlords to money-lenders, and the price of land has fallen by an amount of 50 per cent.

There are no land mortgage banks functioning in the manner the Central Banking Enquiry Committee recommended. Wherever these mortgage banks exist, they are ineffective.

If the advances on the security of landed property may not be made for a longer period, which I strongly urge, they should at least be made for a period of 6 to 9 months as contemplated in clause 11 (J) (e) of the Bill. Even this short period loan will tend to lower the local rate of interest and will give great relief to the landlords and specially in Bengal and other parts of India where lands are sold in default of payment by a day only.

Now I come to the agriculturists who get their help mainly through Co-operative institutions. The Imperial Bank unfortunately has withdrawn and is daily curtailing its facilities to these institutions. This fact was fully brought out in the

evidence before the Central Banking Enquiry Committee.

The Secretary, Madras Central Bank, Ltd., in his evidence said :—

"The Imperial Bank of India is virtually withdrawing the existing cash credit facilities on the banking of co-operative paper."

The Managing Director, Bombay Provincial Co-operative Bank, said :—

"The Imperial Bank of India's policy in regard to the grant of credits to the co-operative movement has undergone a change for the worse recently." (Page 103).

The Bombay Provincial Banking Committee Report (pages 177-78) states :—

"It was brought to our notice that the Provincial Bank, for the last 12 years had a cash credit of Rs. 8 lacs from the Imperial Bank which had not been of much use but which served as an ultimate fluid reserve. This was curtailed some two years ago and has now been stopped altogether."

The Honorary Secretary of the All-India Co-operative Institutes Association, Bombay, in his memorandum submitted (pages 77-78, Vol. II) as follows :—

"For sometime, the Imperial Bank used to grant credits to Co-operative Banks but of late the policy has changed for the worse and the credits have been reduced, stopped and in some cases only allowed on hard terms. As things stand at present, therefore, the Imperial Bank is not serviceable to the Co-operative Banks."

The Central Banking Inquiry Committee on the above evidence made the following observations :—

“The policy of the Imperial Bank of India in regard to the grant of financial assistance to some of the provincial and central co-operative banks seems of late to have undergone a definite change; and it is stated that it shows to-day a much smaller measure of readiness to help them than it used to do in the past. The ultimate result, therefore, of the action of the Imperial Bank will probably be to make money dearer to the agriculturists. We feel that the change of policy to which we have referred is unfortunate, especially at a time when the co-operative movement is growing in vitality and is extending the scope of its usefulness, towards the social

and economic uplift of the rural population and when its financial needs are, therefore, likely to increase rapidly.”

It is evident that the present policy of the Imperial Bank is detrimental to the interests of both the landlords and the agriculturists who form about 85 per cent. of the population of this country. In such important matters verbal assurances have no force. There should be statutory provision for such assistance. I, therefore, recommend that a definite sub-clause (*visi*) be added in Schedule I (*a*) as clause II (*dd*) of the Bill :—

“Provision of the Co-operative Credit Societies registered under Act II of 1912 or by any other law for the time being in force in British India relating to co-operative societies.”

There is no justification in giving special facilities to the Imperial Bank, if it refuses to assist agricultural interests in this country.

MATHURA PRASAD MEHROTRA.

We, the undersigned, are of opinion that there should be a clear and definite provision in the Imperial Bank (Amendment) Bill of 1933 to the effect that the Imperial Bank should be authorised to make advances on the mortgage of immovable properties. The present position of land-owning classes throughout the country owing

to continued economic depression has come to such a pass that it is highly incumbent upon the legislature to enact such a provision to afford them some relief otherwise the disaster which may overtake them will have serious repercussions on the Government of the country.

NRIPENDRANARAYAN SINHA,
SANT SINGH. -
HOSSAIN IMAM.

[AS AMENDED BY THE JOINT COMMITTEE.]

[Words printed in italics indicate the amendments suggested by the Committee.]

(Where the numbering or lettering has been changed the former numbers or letters are indicated in the right hand margin.)

A

BILL

Further to amend the Imperial Bank of India Act, 1920, for certain purposes.

WHEREAS by reason of the constitution of the Reserve Bank of India it is expedient further to amend the Imperial Bank of India Act, 1920, ^{XLVII of 1920.} in order to modify the control of the Governor General in Council over the management of the Bank, to remove certain restrictions on the transaction of business by the Bank, and to provide for an agreement between the Bank and the Reserve Bank of India; It is hereby enacted as follows :—

1. (1) This Act may be called the Imperial Short title and com- Bank of India (Amend-
ment) Act, 1933.

(2) It shall come into force on such date as the Governor General in Council may, by notification in the Gazette of India, appoint.

2. After clause (i) of section 2 of the Imperial Bank of India Act, 1920 ^{XLVII of 1920.} Amendment of section 2, Act XLVII of 1920. (hereinafter referred to as the said Act), the following clause shall be inserted, namely :—

“(i) ‘secretary’ and ‘deputy secretary’ mean, respectively, a secretary and treasurer and a deputy secretary and treasurer of the Bank.”

3. Section 9 of the said Act is hereby repealed.
Repeal of section 9, Act XLVII of 1920.

4. (1) In sub-section (1) of section 10 of the said Act,—
Amendment of section 10, Act XLVII of 1920.

(a) for the words “the Secretary of State for India in Council” the words “the Reserve Bank of India” shall be substituted ;

(b) in clause (i), the words “to act as banker for, and” shall be omitted, and after the word “securities” the words “as agent for the Reserve Bank of India” shall be inserted ; and

(c) in clause (ii), for the words “the Government” the words “the Reserve Bank of India” shall be substituted.

(2) * Sub-section (2) of the same section * *
* * * * * shall be omitted.

5. In clause (a) of section 12 of the said Act, after the words “at such places” the words “, whether in India or elsewhere,” shall be inserted.
Amendment of section 12, Act XLVII of 1920.

6. In sub-section (1) of section 13 of the said Act, after the words “in India” the words “or elsewhere” shall be inserted, and the Explanation after sub-section (2) shall be omitted.
Amendment of section 13, Act XLVII of 1920.

M101 LAD

7. In section 13A of the said Act, the words ^{6A.}
 Amendment of section "as defined in section 13"
 13A, Act XLVII of 1920. shall be omitted, and after
 the words and figures "Co-operative Societies Act,
 1912," the words "or any other law for the time
 being in force in British India relating to
 co-operative societies" shall be inserted.

8. To section 20 of the said Act the following ^{6B.}
 Amendment of section sub-section shall be added,
 20, Act XLVII of 1920. namely :—

"(3) A copy of the principal register of share-
 holders shall be compiled within 30 days
 after the date of the first ordinary general
 meeting in each year and shall be filed
 forthwith with the officer performing the
 duty of registration of companies under
 the Indian Companies Act, 1913."

VII of 1913

9. In section 23 of the said Act, the words ^{7.}
 Amendment of section "with the previous sanc-
 23, Act XLVII of 1920. tion of the Governor
 General in Council," and
 the words "The Bank may also, subject to the
 provisions of this Act as to the business to be
 transacted there, establish an office in London."
 shall be omitted.

10. In section 24 of the said Act, for the word ^{7A.}
 Amendment of section "Governors" the word
 24, Act XLVII of 1920. "Directors" shall be
 substituted.

11. In section 25 of the said Act, the words ^{8.}
 Amendment of section "with the previous sanc-
 25, Act XLVII of 1920. tion of the Governor
 General in Council," shall
 be omitted.

12. For section 28 of the said Act the following ^{9.}
 Substitution of new sec- section shall be substitut-
 tion for section 28, Act ed, namely :—
 XLVII of 1920.

"28. (1) The Central Board shall consist of
 Constitution of Central the following *Directors*,
 Board. namely :—

- (i) the presidents and vice-presidents of the
 Local Boards established by this Act ;
- (ii) one person to be elected from amongst
 themselves by the members of each Local
 Board established by this Act ;
- (iii) a Managing Director who shall be ap-
 pointed by the Central Board for a period
 not exceeding five years on such terms as
 the Central Board may direct, and may
 be continued in his appointment by the
 Central Board for such further periods
 not exceeding five years in each case as
 the Central Board thinks fit ;
- (iv) such number of persons not exceeding
 two as may be nominated by the Governor
 General in Council. Such persons shall
 hold office for one year but may be re-
 nominated ;
- (v) a Deputy Managing Director who shall
 be appointed by the Central Board ;
- (vi) the secretaries of the Local Boards
 established by this Act ; and
- (vii) if any Local Board is hereafter es-
 tablished under this Act, such number of
 persons to represent it as the Central
 Board may prescribe.

(2) The *Directors* specified in clauses (v) and
 (vi) of sub-section (1) shall be at liberty to attend
 all meetings of the Central Board and to take part
 in its deliberations, but shall not be entitled to
 vote on any question arising at any meeting :

Provided that the Deputy Managing Director shall be entitled to vote in the absence of the Managing Director.

(3) The Governor General in Council shall nominate an officer of Government to attend the meetings of the Central Board, and such officer shall be entitled to attend all meetings of the Central Board and to take part in its deliberations but shall not be entitled to vote on any question arising at any meeting."

13. Section 30 of the said Act is hereby repealed. 10.
Repeal of section 30,
Act XLVII of 1920.

14. In section 31 of the said Act,— 10A.
Amendment of section
31, Act XLVII of 1920.

(a) in sub-section (1),—

(i) in clause (b), for the word "Governors", wherever it occurs, the word "Directors" shall be substituted, and

(ii) in clause (c), for the words "the half-yearly balance-sheet" the words "the annual and half-yearly balance-sheets" shall be substituted; and

(b) in clauses (b) and (d) of sub-section (2), for the word "Governors" the word "Directors" shall be substituted.

15. (1) In Part I of Schedule I to the said Act, 11.
Amendment of Schedule I, Act XLVII of 1920. the following amendments shall be made, namely:—

(a) in sub-clause (i) of clause (a), after the words "Governor General in Council", the word "and" shall be omitted, and after the word "Ceylon" the words "and shares of the Reserve Bank of India" shall be added;

(b) in sub-clause (iii) of the same clause*, after the words "a district board" the words "or a municipal board or committee or, with the sanction of the Governor General in Council, debentures or other securities for money issued under the authority of a Prince or Chief of any State in India" shall be inserted;

(c) after sub-clause (iii) of the same clause the following sub-clause shall be inserted, namely:—

"(iiia) subject to such directions as may be issued by the Central Board, * * * debentures of companies with limited liability whether registered in India or elsewhere;" ;

(d) after sub-clause (iv) of the same clause the following clause shall be inserted, namely:—

"(iva) goods which are hypothecated to the Bank as security for such advances, loans or credits, if so authorised by special directions of the Central Board;" ;

(e) in sub-clause (vi) of the same clause, the words " * * * and debentures * * *" shall be omitted, and for the words "if so authorised by any general or special directions of the Central Board" the words "subject to such directions as may be issued by the Central Board" shall be substituted;

(f) in clause (b), for the words "assigned to" the words "pledged, hypothecated, assigned or transferred to" shall be substituted, and for the words "or

assignment" the words "pledge, hypothecation, assignment or transfer" shall be substituted;

(g) in clause (c), for the words "six months" (ee) the words "nine months in the case of advances or loans relating to the financing of seasonal agricultural operations or six months in other cases" shall be substituted;

(h) in clause (d), the words beginning with the words "payable in India, or in Ceylon" and ending with the words "may approve in that behalf" shall be omitted;

(i) in clause (f), the words "made payable in India, or in Ceylon," shall be omitted;

(j) in clause (j), after the word "claims" the following shall be added, namely:—

"and the acquisition and holding of, and generally the dealing with, any right, title or interest in any property, moveable or immoveable, which may be the Bank's security for any loan or advance or may be connected with any such security";

(k) to clause (k) the following words shall be added, namely:—

"and the entering into of contracts of indemnity, suretyship or guarantee with specific security or otherwise";

(l) in clause (l), for the words "the acting as administrator, executor or trustee for the purpose of winding up estates" the words "the administration of estates for any purpose whether as an executor, trustee or otherwise" shall be substituted;

(m) in sub-clause (iii) of clause (l), the words "at the risk of the principal" shall be omitted;

(n) in clause (m), the words beginning with the words "for the use of" and ending with the words "personal needs" shall be omitted;

(o) in clause (n), the words "for the purpose of meeting such bills or letters of credit," shall be omitted, and for the words "six months" the words "nine months in the case of bills relating to the financing of seasonal agricultural operations or six months in other cases" shall be substituted;

(p) in clause (o), the words "in India" shall be omitted;

(q) for clause (p) the following clause shall be substituted, namely:—

"(p) the subsidizing from time to time of the pension funds of the Presidency Banks; and"; and

(r) in clause (q), after the words "kinds of business" the words "including foreign exchange business," shall be inserted.

(2) In sub-clause (a) of clause (1) of Part II of the same Schedule, after the words "six months" the words "except as provided in clause (c) and clause (n) of Part I" shall be inserted.

(3) In clause (4) of Part II of the same Schedule, after the words "negotiable security" the follow-

ing brackets and words shall be inserted, namely :—

“(not being a security in which a trustee may invest trust money under section 20 of the Indian Trusts Act, 1882)”, II of 1882.

and for the words “six months”, in both places where they occur, the following words shall be substituted, namely :—

“nine months if a bill drawn for the purpose of financing seasonal agricultural operations and six months in other cases”.

16. In regulation 9 in Schedule II to the 11A.

Amendment of regulation 9, Schedule II, Act XLVII of 1920. said Act (which Schedule is hereinafter referred to as the said Schedule), for the words “Central Board” the word “Bank” shall be substituted.

17. In regulation 10 in * * * 12.

Amendment of regulation 10, Schedule II, Act XLVII of 1920. the said Schedule, * * * after the words “has a lien” the following shall be inserted, namely :—

“or any transfer of shares to any person who is a minor or has been found by a Court of competent jurisdiction to be of unsound mind or to or in the name of any firm”.

18. For regulation 11 in the said Schedule, the 13.

Substitution of new regulation for regulation 11, Act XLVII of 1920. following regulation shall be substituted, namely :—

“11. The executors or administrators of a deceased ~~shareholders.~~ ^{sole} holder of a share, the holder of a succession certificate issued under Part X of the Indian Succession Act, 1925, in respect of the share, XXXIX of 1925. and a person in whose favour a valid instrument of transfer of the share was executed by the deceased holder during his lifetime, shall be the only persons who may be recognised by the Bank as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor and, on the death of the last survivor, his executors or administrators or any person who is the holder of a succession certificate in respect of such survivor's interests in the share, and a person in whose favour a valid instrument of transfer of the share was executed by such survivor during his lifetime, shall be the only persons who may be recognised by the Bank as having any title to the share.”

19. In regulation 12 in the said Schedule,— 14.

Amendment of regulation 12, Schedule II, Act XLVII of 1920.

- (a) after the word “shareholder”, where it first occurs, the words “or in consequence of a transfer by a deceased shareholder during his lifetime” shall be inserted ;
- (b) after the words “have the right” the words “, subject to the provisions of regulation 10,” shall be inserted ; and
- (c) the words beginning with “but the Bank shall” and ending with “before the death or insolvency” shall be omitted.

20. In regulation 19 of the said Schedule, the ^{16.}
 Amendment of regula- words "and with the
 tion 19, Schedule II, Act previous sanction of the
 XLVII of 1920. Governor General in
 Council" shall be omitted, and after the words
 "increase or" the words "with the previous
 sanction of the Governor General in Council,"
 shall be inserted.

21. In regulation 23 in the said Schedule, in sub- ^{16.}
 Amendment of regula- regulation (1), for the
 tion 23, Schedule II, Act words "statement of the
 XLVII of 1920. affairs" the words
 "balance-sheet" shall be substituted, and in sub-
 regulation (2), for the words "a Managing
 Governor" the words "the Managing Director
 or Deputy Managing Director" shall be substi-
 tuted.

22. For regulation 24 in the said Schedule the ^{17.}
 Substitution of new re- following regulation shall
 gulation for regulation 24, be substituted, namely:—
 Schedule II, Act XLVII
 of 1920.

"24. (1) The Central Board shall convene a
 Special meetings. special meeting
 on the requisition of any three Directors or of not
 less than one hundred shareholders
 holding shares *whether fully paid up or
 otherwise* of the aggregate amount
 of not less than five hundred thousand
 rupees, upon which all calls or other
 sums due have been paid, if such requisition is signed by the requisitionists and addressed to the Managing Director or Deputy Managing Director and contains a statement of the object of the proposed meeting.

(2) The requisition may consist of several documents in like form, each signed by one or more of the requisitionists.

(3) Sixty days' previous notice of any such meeting shall be given by the Central Board under the hand of not less than three Directors, and such notice shall state the purpose for which the meeting is convened and the time and place of such meeting, and shall be advertised in the Gazette of India and in not less than three daily newspapers, of which one shall be a newspaper published in the vernacular :

Provided that not less than three months' previous notice shall be thus given of any special meeting held for the purpose of increasing or reducing the capital of the Bank.

(4) *The place of such meeting shall be the place where the head office of the Bank is situated at the time of the meeting.*

(5) *If the Central Board does not proceed within 21 days from the date of deposit of the requisition referred to in sub-sections (1) and (2) to cause a meeting to be called, the requisitionists, or a majority of them in value, may themselves call the meeting, but in either case any meeting so called shall be held within three months from the date of deposit of the requisition."*

23. In sub-regulation (2) of regulation 25 in ^{17A.}
 Amendment of regula- the said Schedule, for the
 tion 25, Schedule II, Act word "Governors" the
 XLVII of 1920. word "Directors" shall
 be substituted.

24. In sub-regulation (1) of regulation 26 in the 17B.
 said Schedule, for the word
 Amendment of regula- "Governor" the word
 tion 26, Schedule II, Act "Director" shall be sub-
 XLVII of 1920. stituted.

25. In regulation 36 in the said Schedule, 18.
 after the words "power of
 Amendment of regula- authority," the following
 tion 36, Schedule II, Act words shall be inserted,
 XLVII of 1920. namely :—

"or, in the case of a power of attorney pre-
 viously deposited and registered with any
 local head office, a certificate of the
 secretary of such local head office as to
 such deposit and registration,"

26. In regulation 38 in the said Schedule, for 19.
 the words "Governors,
 Amendment of regula- Managing Governors"
 tion 38, Schedule II, Act the words "Directors,
 XLVII of 1920. the Managing Director or Deputy Managing
 Director" shall be substituted.

27. In the heading to regulation 39 in the said 20.
 Schedule, for the word
 Amendment of regula- "Governors" the word
 tion 39, Schedule II, Act "Directors" shall be
 XLVII of 1920. substituted, and in that regulation * *
 * * * ,—

(a) in sub-regulation (1), for the word "Governor" the word "Director" shall be substituted, and in the proviso * * *, the words " * * " or appointed * * * shall be omitted ;

(b) in sub-regulation (2), for the word "Governor" the word "Director" shall be substituted, and in the proviso, for the words, brackets and figures "Governor under the provision of clause (iii)" the words, brackets and figures "Director under the provision of clause (iv)" shall be substituted, and for the words "and the office of a Governor" the words "and the office of a Director" shall be substituted ; and

(c) in sub-regulation (3), for the words "a Local Board or of the Central Board and a Local Board" the words "of the same Local Board" shall be substituted.

28. In the heading to regulation 40 in the said 21.
 Schedule, for the word
 Amendment of regula- "Governors" the word
 tion 40, Schedule II, Act "Directors" shall be sub-
 XLVII of 1920. stituted, and in that regulation * * * * ,
 for the word "Governor", where it first occurs,
 the word "Director" shall be substituted, and for
 the brackets and words "(other than a Governor
 nominated or appointed by the Governor General
 in Council)" the brackets and words "(other than
 a Director nominated by the Governor General in
 Council)" shall be substituted.

29. In regulation 42 in the said Schedule, for 22.
 the words "a Managing
 Amendment of regula- Governor", wherever
 tion 42, Schedule II, Act they occur, the words
 XLVII of 1920. "the Managing Director
 or Deputy Managing

Director shall be substituted and for the word *Governors*, in both places where it occurs, the word *Directors* shall be substituted; and in sub-regulation (1), for the word *three* the word *four* shall be substituted, and for the words *at every local head office established by this Act* the following shall be substituted, namely:—

“ at each of the local head offices established at Calcutta, Bombay and Madras :

Provided that not less than four meetings shall be convened by the Managing Director or Deputy Managing Director in every year.”

30. (1) For sub-regulation (1) of regulation 44 in the said Schedule the Amendment of regulation 44, Schedule II, Act XLVII of 1920. following sub-regulation shall be substituted, namely:—

“(1) At the first meeting of the Local Board which takes place after the first meeting of the Central Board in each year, the Local Board shall elect from among its members a president and a vice-president and the elected Director referred to in clause (ii) of sub-section (1) of section 28. They shall continue in their respective offices until the first meeting of the Local Board after the first meeting of the Central Board in the following year, and, whenever the office of president or vice-president or of such elected Director becomes vacant, the Local Board shall at its next meeting elect a successor who shall hold office for the unexpired portion of the period for which his predecessor was appointed :

* * * * *

(2) In sub-regulation (2) of the same regulation, after the words “ Local Board ” the words “ at all general or special meetings held in the town where the Local Board is established ” shall be inserted, and in the proviso, for the word “ themselves ” the words “ the members of the Local Board present ” shall be substituted.

31. In regulations 46, 47 and 48 in the said Schedule. for the words- 23A-
Amendment of regulations 46, 47 and 48, Schedule II, Act XLVII of 1920. *“ Governors ” and “ Governors ” and “ Gov- error ”, wherever they occur, the words “ Directors ” and “ Director ” shall be substituted, respectively.*

32. In regulation 49 in the said Schedule,— 24-
Amendment of regulation 49, Schedule II, Act XLVII of 1920.

(a) in sub-regulation (1), for the word *Governors* the word *Directors* shall be substituted, and for the words *a Managing Governor* the words *the Managing Director or Deputy Managing Director* shall be substituted; and

(b) in sub-regulation (5), after the word *secretary* the words *or deputy secretary* shall be inserted.

33. In clause (b) of regulation 50 in the said Schedule, after the word "servants" the following shall be inserted, namely:—

Amendment of regulation 50, Schedule II, Act XLVII of 1920.

"and to grant gratuities or other financial assistance, either temporary or permanent, to widows, children or other dependants of deceased officers or servants".

34. In regulation 51 in the said Schedule, for the words "Governors" the words "Director and Deputy Managing Director", and for the word "officers" the word "employees" shall be substituted, and after the words "business of the Bank;" the word "and" shall be omitted and to the regulation as so amended the following words shall be added, namely:—

Amendment of regulation 51, Schedule II, Act XLVII of 1920.

"and to execute proxies or vote at meetings on behalf of shareholders from whom the Bank holds general powers of attorney".

35. In regulation 52 of the said Schedule, for the word "Governor" the word "Director" shall be substituted.

Amendment of regulation 52, Schedule II, Act XLVII of 1920.

36. In regulation 54 in the said Schedule, in sub-regulation (2), for the word "Governors" the word "Directors" shall be substituted, and for sub-regulation (3) the following sub-regulation shall be substituted, namely:—

Amendment of regulation 54, Schedule II, Act XLVII of 1920.

"(3) The statement of the balance shall contain the particulars and shall be in the form required by section 132 of the Indian Companies Act, 1913, and the provisions VII of 1913, of that section and of section 136 of the same Act shall apply to the Bank in like manner as they apply to a banking company."

37. In * * * regulation 58 in the said Schedule,—

Amendment of regulation 58, Schedule II, Act XLVII of 1920.

(a) in sub-regulation (1), for the word "Governor" the word "Director" shall be substituted; and

(b) in the proviso to sub-regulation (2), for the words * * "a special meeting shall be called for the purpose of supplying the same" the words "the vacancy may be filled by the Central Board" shall be substituted.

38. In sub-regulation (1) of regulation 60 in the said Schedule, for the words "any Governor" the words "any Director" shall be substituted

Amendment of regulation 60, Schedule II, Act XLVII of 1920.

39. After regulation 60 in the said Schedule the following regulation shall be inserted, namely:—

Insertion of new regulation 60A in Schedule II, Act XLVII of 1920.

"60A. Notwithstanding anything contained in this Act or in section 271 of the Indian Companies Act, 1913, if the shareholders of the Bank pass a special resolution that the Bank be wound up

voluntarily under the provisions of the Indian VII of 1913, Companies Act, 1913, the Bank shall be wound up in accordance with the provisions of that Act with regard to the voluntary winding up of a company :

Provided that, for the purposes of this section, no such special resolution shall be deemed to have been passed unless at least one-third of the shareholders holding at least one-half of the paid-up capital of the Bank for the time being be present in person or by proxy and a majority poll by open voting in favour of the said resolution and such resolution is thereafter confirmed by a majority of the shareholders at a subsequent special meeting held at an interval of not less than two months or more than three months from the date of the meeting at which the resolution was first passed."

40. For regulation 62 in the said Schedule the following regulation shall be substituted, namely :—
 Substitution of new regulation for regulation 62, Schedule II, Act XLVII of 1920.

" 62. A shareholder who has no registered address in * India and address. has not supplied to the Bank an address for the giving of notices to him shall not be entitled to any notice, notwithstanding anything contained in this Act."

41. Notwithstanding any amendment made in the said Act by this Act 31.
 Temporary saving of existing Central Board. in regard to the manner in which the Central Board shall be constituted, the Central Board existing at the commencement of this Act shall, until it has been re-established in accordance with the said Act as amended by this Act, continue to transact business and shall have all the powers of the Central Board under the said Act as so amended.

GOVERNMENT OF INDIA.
LEGISLATIVE ASSEMBLY
DEPARTMENT.

Report of the Joint Committee on the Bill further to amend the Imperial Bank of India Act, 1920, for certain purposes, with the Bill as amended.

[AS PASSED BY THE LEGISLATIVE ASSEMBLY AND
AMENDED BY THE COUNCIL OF STATE.]

THE RESERVE BANK OF INDIA BILL, 1933.

CONTENTS.

CHAPTER I.

PRELIMINARY.

CLAUSES.

1. Short title, extent and commencement.
2. Definitions.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

3. Establishment and incorporation of Reserve Bank.
4. Share capital, share registers and shareholders.
5. Increase and reduction of share capital.
6. Offices, branches and agencies.
7. Management.
8. Composition of the Central Board, and term of office of Directors.
9. Local Boards, their constitution and functions.
10. Disqualifications of Directors and members of Local Boards.
11. Removal from and creation of office.
12. Casual vacancies and absences.
13. Meetings of the Central Board.
14. General meetings.
15. First constitution of the Central Board.
16. First constitution of Local Boards.
17. Business which the Bank may transact.
18. Power of direct discount.
19. Business which the Bank may not transact.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

20. Obligation of the Bank to transact Government business.
21. Bank to have the right to transact Government business in India.
22. Right to issue bank notes.
23. Issue Department.
24. Denominations of notes.
25. Form of bank notes.
26. Legal tender character of notes.
27. Re-issue of notes.
28. Recovery of notes lost, stolen, mutilated or imperfect.
29. Bank exempt from stamp duty on bank notes.
30. Powers of Governor General in Council to supersede Central Board.
31. Issue of demand bills and notes.
32. Penalty.
33. Assets of the Issue Department.
34. Liabilities of the Issue Department.
35. Initial assets and liabilities.
36. Method of dealing with fluctuations in rupee coin assets.
37. Suspension of assets requirements.
38. Obligations of Government and the Bank in respect of rupee coin.

CLAUSES.

- 39. Obligation to supply different forms of currency.
- 40. Obligation to sell sterling.
- 41. Obligation to buy sterling.
- 42. Cash reserves of scheduled banks to be kept with the Bank.
- 43. Publication of consolidated statement by the Bank.
- 44. Power to require returns from co-operative banks.
- 45. Agreement with the Imperial Bank.

CHAPTER IV.
GENERAL PROVISIONS.

- 46. Contribution by the Governor General in Council to the Reserve Fund.
- 47. Allocation of surplus.
- 48. Exemption of Bank from income-tax and super-tax and provision for deduction at source of income-tax on dividends.
- 49. Publication of bank rate.
- 50. Auditors.
- 51. Appointment of special auditors by Government.
- 52. Powers and duties of auditors.
- 53. Returns.
- 54. Agricultural Credit Department.
- 55. Reports by the Bank.
- 56. Power to require declaration as to ownership of registered shares.
- 57. Liquidation of the Bank.
- 58. Power of the Central Board to make regulations.
- 59. Amendment of Act III of 1906.
- 60. Repeals.
- 61. Amendment of section 11, Act VII of 1913.

THE SCHEDULES.

BILL

TO

Constitute a Reserve Bank of India.

WHEREAS it is expedient to constitute a Reserve Bank for India to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage ;

AND WHEREAS in the present disorganisation of the monetary systems of the world it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system ;

BUT WHEREAS it is expedient to make temporary provision on the basis of the existing monetary system, and to leave the question of the monetary standard best suited to India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures ;

It is hereby enacted as follows :—

CHAPTER I.

PRELIMINARY.

1. (1) This Act may be called the Reserve Bank Short title, extent of India Act, 1934. and commencement.

(2) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(3) This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates as the Governor General in Council may, by notification in the Gazette of India, appoint.

2. In this Act, unless there is anything repugnant in the subject or context,—

Definitions.

- (a) "the Bank" means the Reserve Bank of India constituted by this Act ;
- (b) "the Central Board" means the Central Board of Directors of the Bank ;
- (c) "provincial co-operative bank" means the principal society in a province which is registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time II of 1912, being in force in British India relating to co-operative societies and the primary object of which is the financing of the other societies in the province which are or are deemed to be so registered :

Provided that in addition to such principal society in a province or where there is no such principal society in a province the Local Government may declare any central co-operative society in that province to be a provincial co-operative bank within the meaning of this definition ;

- (d) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906 ; and III of 1906,
- (e) "scheduled bank" means a bank included in the Second Schedule.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT
AND BUSINESS.

3. (1) A Bank to be called the Reserve Bank of India shall be constituted for the purposes of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

4. (1) The original share capital of the Bank shall be five crores of rupees divided into shares of one hundred rupees each, which shall be fully paid up.

(2) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Delhi, Madras and Rangoon, and a separate issue of shares shall be made in each of the areas served by those registers, as defined in the First Schedule, and shares shall be transferable from one register to another.

(3) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register; and no person who is not—

- (a) domiciled in India and either an Indian subject of His Majesty, or a subject of a State in India, or
- (b) a British subject ordinarily resident in India and domiciled in the United Kingdom or in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, or
- (c) a company registered under the Indian Companies Act, 1913, or a society registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies or a scheduled bank, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, and having a branch in British India,

VII of 1913.

II of 1912.

shall be registered as a shareholder or be entitled to payment of any dividend on any share, and no person, who, having been duly registered as a shareholder, ceases to be qualified to be so registered, shall be able to exercise any of the rights of a shareholder otherwise than for the purpose of the sale of his shares.

(4) The Governor General in Council shall, by notification in the Gazette of India, specify the parts of His Majesty's Dominions which shall be deemed for the purposes of clauses (b) and (c) of sub-section (3) to be the parts of His Majesty's Dominions in which no discrimination against Indian subjects of His Majesty exists.

(5) The nominal value of the shares originally assigned to the various registers shall be as follows, namely :—

- (a) to the Bombay register—one hundred and forty lakhs of rupees ;
- (b) to the Calcutta register—one hundred and forty-five lakhs of rupees ;
- (c) to the Delhi register—one hundred and fifteen lakhs of rupees ;
- (d) to the Madras register—seventy lakhs of rupees ;
- (e) to the Rangoon register—thirty lakhs of rupees :

Provided that if at the first allotment the total nominal value of the shares on the Delhi register for which applications are received is less than one hundred and fifteen lakhs of rupees, the Central Board shall, before proceeding to any allotment, transfer any shares not applied for up to a maximum nominal value of thirty-five lakhs of rupees from that register in two equal portions to the Bombay and the Calcutta register.

A Committee consisting of two elected members of the Assembly and one elected member of the Council of State to be elected by non-official members of the respective Houses shall be associated with the Central Board for the purpose of making public issue of shares and looking after the first allotment of shares.

(6) In allotting the shares assigned to a register, the Central Board shall, in the first instance, allot five shares to each qualified applicant who has applied for five or more shares ; and, if the number of such applicants is greater than one-fifth of the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

(7) If the number of such applicants is less than one-fifth of the number of shares assigned to the register, the Central Board shall allot the remaining shares firstly, up to the limit of one-half of such remaining shares, to those applicants who have applied for less than five shares, and thereafter as to the balance to the various applicants in such manner as it may deem fair and equitable, having regard to the desirability of distributing the shares and the voting rights attached to them as widely as possible.

(8) Notwithstanding anything contained in sub-sections (6) and (7), the Central Board shall reserve for and allot to Government shares of the nominal value of two lakhs and twenty thousand rupees to be held by Government for disposal at par to Directors seeking to obtain the minimum share qualification required under sub-section (2) of section 11.

(9) If, after all applications have been met in accordance with the provisions of sub-sections (6), (7) and (8), any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to and taken up by Government, and shall be sold by the Governor General in Council as soon as may be, at not less than par, to residents of the areas served by the register concerned.

(10) The Governor General in Council shall have no right to exercise any vote under this Act by reason of any shares allotted to him under sub-section (8) or under sub-section (9).

(11) A Director shall not dispose of any shares obtained from Government under the provisions

of sub-section (8) otherwise than by re-sale to Government at par, and Government shall be entitled to re-purchase at par all such shares held by any Director on his ceasing from any cause to hold office as Director.

5. (1) The share capital of the Bank may be increased or reduced on the recommendation of the Central Board, with the previous sanction of the Governor General in Council and with the approval of the Central Legislature, to such extent and in such manner as may be determined by the Bank in general meeting.

(2) The additional shares so created shall be of the nominal value of one hundred rupees each and shall be assigned to the various registers in the same proportions as the shares constituting the original share capital.

(3) Such additional shares shall be fully paid up, and the price at which they may be issued shall be fixed by the Central Board with the previous sanction of the Governor General in Council.

(4) The provisions of section 4 relating to the manner of allotment of the shares constituting the original share capital shall apply to the allotment of such additional shares, and existing shareholders shall not enjoy any preferential right to the allotment of such additional shares.

6. The Bank shall, as soon as may be, establish Offices, branches and offices in Bombay, Calcutta, Delhi, Madras and Rangoon and a branch in London, and may establish branches or agencies in any other place in India or, with the previous sanction of the Governor General in Council, elsewhere.

7. The general superintendence and direction of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

8. (1) The Central Board shall consist of the following Directors, namely:—

- (a) a Governor and two Deputy Governors, to be appointed by the Governor General in Council after consideration of the recommendations made by the Board in that behalf;
- (b) four Directors to be nominated by the Governor General in Council;
- (c) eight Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 9 and in the following numbers, namely:—
- (i) for the Bombay register—two Directors;
 - (ii) for the Calcutta register—two Directors;
 - (iii) for the Delhi register—two Directors;
 - (iv) for the Madras register—one Director;
 - (v) for the Rangoon register—one Director; and

(d) one government official to be nominated by the Governor General in Council.

(2) The Governor and Deputy Governors shall devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances as may be determined by the Central Board, with the approval of the Governor General in Council.

(3) A Deputy Governor and the Director nominated under clause (d) of sub-section (1) may attend any meeting of the Central Board and take part in its deliberations but shall not be entitled to vote :

Provided that when the Governor is absent a Deputy Governor authorized by him in this behalf in writing may vote for him.

(4) The Governor and a Deputy Governor shall hold office for such term not exceeding five years as the Governor General in Council may fix when appointing them, and shall be eligible for re-appointment.

A Director nominated under clause (b) or elected under clause (c) of sub-section (1) shall hold office for five years, or thereafter until his successor shall have been duly nominated or elected, and, subject to the provisions of section 10, shall be eligible for re-nomination or re-election.

A Director nominated under clause (d) of sub-section (1) shall hold office during the pleasure of the Governor General in Council.

(5) No act or proceeding of the Board shall be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

9. (1) A Local Board shall be constituted for each of the five areas specified in the First Schedule, and shall consist of—

- (a) five members elected from amongst themselves by the shareholders who are registered on the register for that area and are qualified to vote, and
- (b) not more than three members nominated by the Central Board from amongst the shareholders registered on the register for that area, who may be nominated at any time :

Provided that the Central Board shall in exercising this power of nomination aim at securing the representation of territorial or economic interests not already represented, and in particular the representation of agricultural interests and the interests of co-operative banks.

(2) At an election of members of a Local Board for any area, any shareholder who has been registered on the register for that area, for a period of not less than six months ending with the date of the election, as holding five shares shall have one vote, and each shareholder so registered as having more than five shares shall have one vote for each five shares, but subject to a maximum of ten votes, and such votes may be exercised by proxy appointed on each occasion for that purpose, such proxy being himself a shareholder entitled to vote at the election and not being an employee of the Bank.

(3) The members of a Local Board shall hold office until they vacate it under sub-section (6) and, subject to the provisions of section 10, shall be eligible for re-election or re-nomination, as the case may be.

(4) At any time within three months of the day on which the Directors representing the shareholders on any register are due to retire under the provisions of this Act, the Central Board shall direct an election to be held of members of the Local Board concerned, and shall specify a date from which the registration of transfers from and to the register shall be suspended until the election has taken place.

(5) On the issue of such direction the Local Board shall give notice of the date of the election and shall publish a list of shareholders holding five or more shares, with the dates on which their shares were registered, and with their registered addresses, and such list shall be available for purchase not less than three weeks before the date fixed for the election.

(6) The names of the persons elected shall be notified to the Central Board which shall thereupon proceed to make any nominations permitted by clause (b) of sub-section (1) it may then decide to make, and shall fix the date on which the outgoing members of the Local Board shall vacate office, and the incoming members shall be deemed to have assumed office on that date.

(7) The elected members of a Local Board shall, as soon as may be after they have been elected, elect from amongst themselves one or two persons, as the case may be, to be Directors representing the shareholders on the register for the area for which the Board is constituted.

(8) A Local Board shall advise the Central Board on such matters as may be generally or specifically referred to it and shall perform such duties as the Board may, by regulations, delegate to it.

10. (1) No person may be a Director or a member of a Local Board
Disqualifications of Directors and members of Local Boards. who—

- (a) is a salaried government official or a salaried official of a State in India, or
- (b) is, or at any time has been, adjudicated an insolvent, or has suspended payment or has compounded with his creditors, or
- (c) is found lunatic or becomes of unsound mind, or
- (d) is an officer or employee of any bank, or
- (e) is a director of any bank, other than a bank which is a society registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies.

II of 1912.

(2) No two persons who are partners of the same mercantile firm, or are directors of the same private company, or one of whom is the general agent of or holds a power of procuration from the other, or from a mercantile firm of which the other is a partner, may be Directors or members of the same Local Board at the same time.

(3) Nothing in clause (a), clause (d) or clause (e) of sub-section (1) shall apply to the Governor, or to a Deputy Governor or to the Director nominated under clause (d) of sub-section (1) of section 8.

11. (1) The Governor General in Council may remove from office the Governor, or a Deputy Governor or any nominated or elected Director :

Removal from and vacation of office.

Provided that in the case of a Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8 this power shall be exercised only on a resolution passed by the Central Board in that behalf by a majority consisting of not less than nine Directors.

(2) A Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8, and any member of a Local Board shall cease to hold office if, at any time after six months from the date of his nomination or election, he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than five thousand rupees, or if he ceases to hold unencumbered shares of that value, and any such Director shall cease to hold office if without leave from the Governor General in Council he absents himself from three consecutive meetings of the Central Board convened under sub-section (1) of section 13.

(3) The Governor General in Council shall remove from office any Director, and the Central Board shall remove from office any member of a Local Board, if such Director or member becomes subject to any of the disqualifications specified in sub-section (1) or sub-section (2) of section 10.

(4) A Director or member of a Local Board removed or ceasing to hold office under the foregoing sub-sections shall not be eligible for re-appointment either as Director or as member of a Local Board until the expiry of the term for which his appointment was made.

(5) The appointment, nomination or election as Director or member of a Local Board of any person who is a member of the Indian Legislature or of a local Legislature shall be void, unless, within two months of the date of his appointment, nomination or election, he ceases to be such member, and, if any Director or member of a Local Board is elected or nominated as a member of any such Legislature, he shall cease to be a Director or member of the Local Board as from the date of such election or nomination, as the case may be.

(6) A Director may resign his office to the Governor General in Council, and a member of a Local Board may resign his office to the Central Board, and on the acceptance of the resignation the office shall become vacant.

12. (1) If the Governor or a Deputy Governor Casual vacancies and by infirmity or otherwise absences. is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may, after consideration of the recommendations made by the Central Board in this behalf, appoint another person to officiate for him, and such person may, notwithstanding anything contained in clause (d) of sub-section (1) of section 10, be an officer of the Bank.

(2) If an elected Director is for any reason unable to attend a particular meeting of the Central Board, the elected members of the Local Board of the area which he represents may elect one of their number to take his place, and for the purposes of that meeting the substitute so elected shall have all the powers of the absent Director.

(3) Where any casual vacancy in the office of any member of a Local Board occurs otherwise than by the occurrence of a vacancy in the office of a Director elected by the Local Board, the Central Board may nominate thereto any qualified person recommended by the elected members of the Local Board.

(4) Where any casual vacancy occurs in the office of a Director other than the vacancies provided for in sub-section (1), the vacancy shall be filled, in the case of a nominated Director by nomination, and in the case of an elected Director by election held in the manner provided in section 9 for the election of Directors :

Provided that before such election is made the resulting vacancy, if any, in the Local Board and any vacancy in the office of an elected member of such Board which may have been filled by a member nominated under sub-section (3) shall be filled by election held as nearly as may be in the manner provided in section 9 for the election of members of a Local Board.

(5) A person nominated or elected under this section to fill a casual vacancy shall, subject to the proviso contained in sub-section (4), hold office for the unexpired portion of the term of his predecessor.

13. (1) Meetings of the Central Board shall be convened by the Governor at least six times in each year and at least once in each quarter.

(2) Any three Directors may require the Governor to convene a meeting of the Central Board at any time and the Governor shall forthwith convene a meeting accordingly.

(3) The Governor, or in his absence the Deputy Governor authorized by the Governor under the proviso to sub-section (3) of section 8 to vote for him, shall preside at meetings of the Central Board, and, in the event of an equality of votes, shall have a second or casting vote.

14. (1) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at a place where there is an office of the Bank within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Central Board at any other time :

Provided that the annual general meeting shall not be held on two consecutive occasions at any one place.

(2) The shareholders present at a general meeting shall be entitled to discuss the annual accounts, the report of the Central Board on the working of the Bank throughout the year and the auditors' report on the annual balance-sheet and accounts.

(3) Every shareholder shall be entitled to attend at any general meeting and each shareholder who has been registered on any register, for a period of not less than six months ending with the date of the meeting, as holding five or more shares shall have one vote and on a poll being demanded each shareholder so registered shall have one vote for each five shares, but subject to a maximum of ten votes and such votes may be exercised by proxy appointed on each occasion for that purpose, such proxy being himself a shareholder entitled to vote at the election and not being an officer or employee of the Bank.

15. (1) The following provisions shall apply to the first constitution of the Central Board, and, notwithstanding anything contained in section 8, the Central Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(2) The first Governor and the first Deputy Governor or Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(3) The first eight Directors representing the shareholders on the various registers shall be nominated by the Governor General in Council from the areas served respectively by those registers, and the Directors so nominated shall hold office until their successors shall have been duly elected as provided in sub-section (4).

(4) On the expiry of each successive period of twelve months after the nomination of Directors under sub-section (3) two Directors shall be elected in the manner provided in section 9 until all the Directors so nominated have been replaced by elected Directors holding office in accordance with section 8. The register in respect of which the election is to be held shall be selected by lot from among the registers still represented by nominated Directors, and for the purposes of such lot the Madras and Rangoon registers shall be treated as if they comprised one register only.

16. As soon as may be after the commencement of this Act, the Central Board shall direct elections to be held and may make nominations, in order to constitute Local Boards in accordance with the provisions of section 9, and the members of such Local Boards shall hold office up to the date fixed under sub-section (6) of section 9, but shall not exercise any right under sub-section (7) of that section.

17. The Bank shall be authorized to carry on Business which the and transact the several Bank may transact. kinds of business hereinafter specified, namely :—

- (1) the accepting of money on deposit without interest from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, States in India, local authorities, banks and any other persons ;
- (2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn on and payable in India and arising out of *bona fide* commercial or trade transactions bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;
- (b) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within nine months from the date of such purchase or rediscount, exclusive of days of grace ;
- (c) the purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing the signature of a scheduled

bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, or such securities of States in India as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;

- (3) (a) the purchase from and sale to scheduled banks of sterling in amounts of not less than the equivalent of one lakh of rupees ;
- (b) the purchase, sale and rediscount of bills of exchange (including treasury bills) drawn in or on any place in the United Kingdom and maturing within ninety days from the date of purchase, provided that no such purchase, sale or rediscount shall be made in India except with a scheduled bank ; and
- (c) the keeping of balances with banks in the United Kingdom ;
- (4) the making to States in India, local authorities, scheduled banks and provincial co-operative banks of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of—
- (a) stocks, funds and securities (other than immovable property) in which a trustee is authorized to invest trust money by any Act of Parliament or by any law for the time being in force in British India ;
- (b) gold or silver or documents of title to the same ;
- (c) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank ;
- (d) promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents of title to goods which have been transferred, assigned, or pledged to any such bank as security for a cash credit or overdraft granted for *bond fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops ;
- (5) the making to the Governor General in Council and to such Local Governments as may have the custody and management of their own provincial revenues of advances repayable in each case not later than three months from the date of the making of the advance ;
- (6) the issue of demand drafts made payable at its own offices or agencies and the making, issue and circulation of bank post bills ;
- (7) the purchase and sale of Government securities of the United Kingdom maturing within ten years from the date of such purchase ;
- (8) the purchase and sale of securities of the Government of India or of a Local Government of any maturity or of such

securities of a local authority in British India or of such States in India as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board :

Provided that securities fully guaranteed as to principal and interest by the Government of India, a Local Government, a local authority or a State in India shall be deemed for the purposes of this clause to be securities of such Government, authority or State :

Provided further that the amount of such securities held at any time in the Banking Department shall be so regulated that—

- (a) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and three-fifths of the liabilities of the Banking Department in respect of deposits ;
- (b) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and two-fifths of the liabilities of the Banking Department in respect of deposits ; and
- (c) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits ;
- (9) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities ;
- (10) the sale and realisation of all property, whether movable or immovable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims ;
- (11) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government or local authority or State in India in the transaction of any of the following kinds of business, namely :—
 - (a) the purchase and sale of gold or silver ;
 - (b) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company ;
 - (c) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares ;
 - (d) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere ;
 - (e) the management of public debt ;
- (12) the purchase and sale of gold coin and bullion ;
- (13) the opening of an account with or the making of an agency agreement with, and the acting as agent or correspondent of, a bank which is the principal currency authority of any country under the law for the time being in force in that country or any international bank formed

by such banks, and the investing of the funds of the Bank in the shares of any such international bank ;

- (14) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed :

Provided that no money shall be borrowed under this clause from any person in India other than a scheduled bank, or from any person outside India other than a bank which is the principal currency authority of any country under the law for the time being in force in that country :

Provided further that the total amount of such borrowings from persons in India shall not at any time exceed the amount of the share capital of the Bank ;

- (15) the making and issue of bank notes subject to the provisions of this Act ; and
(16) generally, the doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

18. When, in the opinion of the Central Board of Directors, or, where the powers and functions of the Central Board under this section have been delegated to a committee of the Central Board or to the Governor, in the opinion of such committee or of the Governor as the case may be, a special occasion has arisen making it necessary or expedient that action should be taken under this section for the purpose of regulating credit in the interests of Indian trade, commerce, industry and agriculture, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) or sub-clause (a) or (b) of clause (3) or clause (4) of section 17,—

- (1) purchase, sell or discount any of the bills of exchange or promissory notes specified in sub-clause (a) or (b) of clause (2) or sub-clause (b) of clause (3) of that section though such bill or promissory note does not bear the signature of a scheduled bank or a provincial co-operative bank ; or
(2) purchase or sell sterling in amounts of not less than the equivalent of one lakh of rupees ; or
(3) make loans or advances repayable on demand or on the expiry of fixed periods not exceeding ninety days against the various forms of security specified in clause (4) of that section :

Provided that a committee of the Board or the Governor shall not, save in cases of special urgency, authorize action under this section without prior consultation with the Central Board and that in all cases action so authorized shall be reported to the members of the Central Board forthwith.

19. Save as otherwise provided in sections 17, 18 and 45, the Bank may not transact—

- (1) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except such interest as it may in any way acquire in the course of the satisfaction of any of its claims : provided that all such interests shall be disposed of at the earliest possible moment ;

- (2) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares ;
- (3) advance money on mortgage of, or otherwise on the security of, immovable property or documents of title relating thereto, or become the owner of immovable property, except so far as is necessary for its own business premises and residences for its officers and servants ;
- (4) make loans or advances ;
- (5) draw or accept bills payable otherwise than on demand ;
- (6) allow interest on deposits or current accounts.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

20. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues and such States in India as may be approved of and notified by the Governor General in Council in the Gazette of India, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the public debt.

21. (1) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and, in particular, shall deposit free of interest all their cash balances with the Bank :

Provided that nothing in this sub-section shall prevent the Governor General in Council or any Local Government from carrying on money transactions at places where the Bank has no branches or agencies, and the Governor General in Council and Local Governments may hold at such places such balances as they may require.

(2) The Governor General in Council and each Local Government shall entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans.

(3) In the event of any failure to reach agreement on the conditions referred to in this section the Governor General in Council shall decide what the conditions shall be.

(4) Any agreement made under this section to which the Governor General in Council or any Local Government is a party shall be laid, as soon as may be after it is made, before the Central Legislature and in the case of a Local Government before its local Legislature also.

22. (1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period which shall be fixed by the Governor

General in Council on the recommendation of the Central Board, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the date on which this Chapter comes into force the Governor General in Council shall not issue any currency notes.

23. (1) The issue of bank notes shall be conducted by the Bank in an Issue Department. Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 34.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

24. Bank notes shall be of the denominational Denominations of notes. values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, unless otherwise directed by the Governor General in Council on the recommendation of the Central Board.

25. The design, form and material of bank notes shall be such as may be approved by the Governor General in Council after consideration of the recommendations made by the Central Board.

26. (1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or on account for the amount expressed therein, and shall be guaranteed by the Governor General in Council.

(2) On recommendation of the Central Board the Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

27. The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

28. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note :

Recovery of notes lost, stolen, mutilated or imperfect.

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in and the conditions and limitations subject to which the value of such currency notes or bank notes may be refunded as of grace and the rules made under this proviso shall be laid on the table of both Houses of the Central Legislature.

29. The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of bank notes issued by it.

30. (1) If in the opinion of the Governor General in Council the Bank fails to carry out any of the obligations imposed on it by or under this Act, he may, by notification in the Gazette of India, declare the Central Board to be superseded, and thereafter the general superintendence and direction of the affairs of the Bank shall be entrusted to such agency as the Governor General in Council may determine, and such agency may exercise the powers and do all acts and things which may be exercised or done by the Central Board under this Act.

(2) When action is taken under this section the Governor General in Council shall cause a full report of the circumstances leading to such action and of the action taken to be laid before the Central Legislature at the earliest possible opportunity and in any case within three months from the issue of the notification superseding the Board.

31. No person in British India other than the Bank or, as expressly authorized by this Act, the Governor General in Council shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such person :

Provided that cheques or drafts, including hundis, payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

32. (1) Any person contravening the provisions of section 31 shall be punishable with fine which may extend to the amount of the bill, hundi, note or engagement in respect whereof the offence is committed.

(2) No prosecution under this section shall be instituted except on complaint made by the Bank.

33. (1) The assets of the Issue Department shall consist of gold coin, gold bullion, sterling securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(2) Of the total amount of the assets, not less than two-fifths shall consist of gold coin, gold bullion or sterling securities :

Provided that the amount of gold coin and gold bullion shall not at any time be less than forty crores of rupees in value.

(3) The remainder of the assets shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes payable in British India as are eligible for purchase by the Bank under sub-clause (a) or sub-clause (b) of clause (2) of section 17 or under clause (1) of section 18 :

Provided that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the assets or fifty crores of rupees, whichever amount

is greater, or, with the previous sanction of the Governor General in Council, such amount plus a sum of ten crores of rupees.

(4) For the purposes of this section, gold coin and gold bullion shall be valued at 8·47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and securities shall be valued at the market rate for the time being obtaining.

(5) Of the gold coin and gold bullion held as assets, not less than seventeen-twentieths shall be held in British India, and all gold coin and gold bullion held as assets shall be held in the custody of the Bank or its agencies :

Provided that gold belonging to the Bank which is in any other bank or in any mint or treasury or in transit may be reckoned as part of the assets.

(6) For the purposes of this section, the sterling securities which may be held as part of the assets shall be securities of any of the following kinds payable in the currency of the United Kingdom, namely :—

- (a) balances at the credit of the Issue Department with the Bank of England ;
- (b) bills of exchange bearing two or more good signatures and drawn on and payable at any place in the United Kingdom and having a maturity not exceeding ninety days ;
- (c) Government securities of the United Kingdom maturing within five years :

Provided that, for a period of two years from the date on which this Chapter comes into force, any of such last mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17.

34. (1) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation.

(2) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall, notwithstanding anything contained in subsection (2) of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be ; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

35. On the date on which this Chapter comes into force the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation and the Governor General in Council shall transfer to the Issue Department gold coin,

gold bullion, sterling securities, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 33 :

Provided that the total amount of the gold coin, gold bullion and sterling securities so transferred shall not be less than one-half of the whole amount transferred, and that the amount of rupee coin so transferred shall not exceed fifty crores of rupees :

Provided further that the whole of the gold coin and gold bullion held by the Governor General in Council in the gold standard reserve and the paper currency reserve at the time of transfer shall be so transferred.

36. (1) After the close of any financial year Method of dealing with in which the minimum fluctuations in rupee coin amount of rupee coin held assets. in the assets, as shown in any of the weekly accounts of the Issue Department for that year prescribed under sub-section (1) of section 53, is greater than fifty crores of rupees or one-sixth of the total amount of the assets as shown in that account, whichever may be the greater, the Bank may deliver to the Governor General in Council rupee coin up to the amount of such excess but not without his consent exceeding five crores of rupees, against payment of legal tender value in the form of bank notes, gold or securities :

Provided that if the Bank so desires and if the amount of gold coin, gold bullion and sterling securities in the assets does not at that time exceed one-half of the total assets, a proportion not exceeding two-fifths of such payment shall be in gold coin, gold bullion or such sterling securities as may be held as part of the assets under sub-section (6) of section 33.

(2) After the close of any financial year in which the maximum amount of rupee coin held in the assets, as so shown, is less than fifty crores of rupees or one-sixth of the total amount of the assets, as so shown, whichever may be the greater, the Governor General in Council shall deliver to the Bank rupee coin up to the amount of such deficiency, but not without its consent exceeding five crores of rupees, against payment of legal tender value.

37. (1) Notwithstanding anything contained in Suspension of assets the foregoing provisions, requirements. the Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold as assets gold coin, gold bullion or sterling securities of less aggregate amount than that required by sub-section (2) of section 33 and, whilst the holding is so reduced, the proviso to that sub-section shall cease to be operative :

Provided that the gold coin and gold bullion held as such assets shall not be reduced below the amount specified in the proviso to sub-section (2) of section 33 so long as any sterling securities remain held as such assets.

(2) In respect of any period during which the holding of gold coin, gold bullion and sterling securities is reduced under sub-section (1), the Bank shall pay to the Governor General in Council a tax upon the amount by which such

holding is reduced below the minimum prescribed by sub-section (2) of section 33; and such tax shall be payable at the bank rate for the time being in force, with an addition of one per cent. per annum when such holding exceeds thirty-two and a half per cent. of the total amount of the assets and of a further one and a half per cent. per annum in respect of every further decrease of two and a half per cent. or part of such decrease :

Provided that the tax shall not in any event be payable at a rate less than six per cent. per annum.

38. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 36 nor to put into circulation any rupees, except through the Bank and as provided in that section; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

39. (1) The Bank shall issue rupee coin on demand in exchange for bank notes and currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act, 1906.

III of 1906.

(2) The Bank shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation; and the Governor General in Council shall supply such coins to the Bank on demand. If the Governor General in Council at any time fails to supply such coins, the Bank shall be released from its obligations to supply them to the public.

III of 1906.

40. The Bank shall sell, to any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and pays the purchase price in legal tender currency, sterling for immediate delivery in London, at a rate not below one shilling and five pence and forty-nine sixths of a penny for a rupee :

Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds.

41. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, sterling for immediate delivery in London, at a rate not higher than one shilling and six pence and three-sixteenths of a penny for a rupee :

Provided that no person shall be entitled to demand to sell an amount of sterling less than ten thousand pounds :

Provided further that no person shall be entitled to receive payment unless the Bank is satisfied that payment of the sterling in London has been made.

42. (1) Every bank included in the Second Schedule shall maintain with the Bank a balance the amount of which shall not at the close of business on any day be less than five per cent. of the demand liabilities and two per cent. of the time liabilities of such bank in India as shown in the return referred to in sub-section (2).

Explanation.—For the purposes of this section liabilities shall not include the paid-up capital or the reserves, or any credit balance in the profit and loss account of the bank or the amount of any loan taken from the Reserve Bank.

(2) Every scheduled bank shall send to the Governor General in Council and to the Bank a return signed by two responsible officers of such bank showing—

- (a) the amounts of its demand and time liabilities, respectively, in India,
- (b) the total amount held in India in currency notes of the Government of India and bank notes,
- (c) the amounts held in India in rupee coin and subsidiary coin, respectively,
- (d) the amounts of advances made and of bills discounted in India, respectively, and
- (e) the balance held at the Bank,

at the close of business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, 1881, at the close of business on the ^{XXVI} preceding working day; and such return shall be ¹⁸⁸¹ sent not later than two working days after the date to which it relates :

Provided that where the Bank is satisfied that the furnishing of a weekly return under this sub-section is impracticable in the case of any scheduled bank by reason of the geographical position of the bank and its branches, the Bank may require such bank to furnish in lieu of a weekly return a monthly return to be dispatched not later than fourteen days after the end of the month to which it relates giving the details specified in this sub-section in respect of such bank at the close of business for the month.

(3) If at the close of business on any day before the day fixed for the next return, the balance held at the Bank by any scheduled bank is below the minimum prescribed in sub-section (1), such scheduled bank shall be liable to pay to the Bank in respect of each such day penal interest at a rate three per cent. above the bank rate on the amount by which the balance with the Bank falls short of the prescribed minimum, and if on the day fixed for the next return such balance is still below the prescribed minimum as disclosed by this return, the rates of penal interest shall be increased to a rate five per cent. above the bank rate in respect of that day and each subsequent day on which the balance held at the Bank at the close of business on that day is below the prescribed minimum.

(4) Any scheduled bank failing to comply with the provisions of sub-section (2) shall be liable to pay to the Governor General in Council or to the Bank, as the case may be, or to each, a penalty of one hundred rupees for each day during which the failure continues.

(5) The penalties imposed by sub-sections (3) and (4) shall be payable on demand made by the Bank, and, in the event of a refusal by the defaulting bank to pay on such demand, may be levied by a direction of the principal Civil Court having jurisdiction in the area where an office of the

defaulting bank is situated, such direction to be made only upon application made in this behalf to the Court by the Governor General in Council in the case of a failure to make a return under subsection (2) to the Governor General in Council, or by the Bank with the previous sanction of the Governor General in Council in other cases.

(6) The Governor General in Council shall, by notification in the Gazette of India, direct the inclusion in the Second Schedule of any bank not already so included which carries on the business of banking in British India and which—

(a) has a paid-up capital and reserves of an aggregate value of not less than five lakhs of rupees, and

(b) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or a corporation or a company incorporated by or under any law in force in any place outside British India,

VII of 1913.

and shall by a like notification direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserve becomes at any time less than five lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

43. The Bank shall compile and shall cause to be published each week a consolidated statement showing the aggregate of the amounts under each clause of subsection (2) of section 42 exhibited in the returns received from scheduled banks under that section.

44. The Bank may require any provincial co-operative bank with which it has any transactions under section 17 to furnish the return referred to in subsection (2) of section 42, and if it does so, the provisions of subsections (4) and (5) of section 42 shall apply so far as may be to such co-operative bank as if it were a scheduled bank.

45. (1) The Bank shall enter into an agreement with the Imperial Bank of India which shall be subject to the approval of the Governor General in Council, and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for fifteen years and thereafter until terminated after five years' notice on either side, and shall further contain the provisions set forth in the Third Schedule :

Provided that the agreement shall be conditional on the maintenance of a sound financial position by the Imperial Bank and that if, in the opinion of the Central Board, the Imperial Bank has failed either to fulfil the conditions of the agreement or to maintain a sound financial position, the Central Board shall make a recommendation to the Governor General in Council, and the Governor General in Council, after making such further enquiry as he thinks fit, may issue instructions to the Imperial Bank with reference either to the agreement or to any matter which in his opinion involves the security of the Government monies or the assets of the Issue Department in the custody of the Imperial Bank, and in the event of the Imperial Bank disregarding such instructions may declare the agreement to be terminated.

(2) The agreement referred to in sub-section (1) shall, as soon as may be after it is made, be laid before the Central Legislature.

CHAPTER IV.

GENERAL PROVISIONS.

46. The Governor General in Council shall Contribution by Gov- transfer to the Bank rupee
ernor General in Council securities of the value of
to the Reserve Fund. five crores of rupees to be
allocated by the Bank to the Reserve Fund.

47. After making provision for bad and doubt- Allocation of surplus. ful debts, depreciation in
assets, contributions to
staff and superannuation funds, and such other
contingencies as are usually provided for by
bankers, and after payment out of the net annual
profits of a cumulative dividend at such rate not
exceeding five per cent. per annum on the share
capital as the Governor General in Council
may fix at the time of the issue of shares, a
portion of the surplus shall be allocated to the
payment of an additional dividend to the share-
holders calculated on the scale set forth in the
Fourth Schedule and the balance of the surplus
shall be paid to the Governor General in Council :

Provided that if at any time the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.

48. (1) Notwithstanding anything contained in the Indian Income-tax Act, 1922, or any other Act, 1922, from income-tax and super-tax and provision for deduction at source of income-tax on dividends. the Bank shall not be liable to pay income-tax or super-tax on any of its income, profits or gains :

Provided that nothing in this section shall affect the liability of any shareholder in respect of income-tax or super-tax.

(2) For the purposes of section 18 of the Indian Income-tax Act, 1922, and of any other relevant Act, 1922, provision of that Act relating to the levy and refund of income-tax any dividend paid under section 47 of this Act shall be deemed to be "Interest on Securities".

49. The Bank shall make public from time to time the standard rate at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under this Act.

50. (1) Not less than two auditors shall be elected and their remuneration fixed at the annual general meeting. The auditors may be shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(2) The first auditors of the Bank may be appointed by the Central Board before the first annual general meeting and, if so appointed, shall

hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections :

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Central Board.

51. Without prejudice to anything contained in section 50, the Governor General in Council may at any time appoint the Auditor General or such auditors as he thinks fit to examine and report upon the accounts of the Bank.

52. (1) Every auditor shall be supplied with a copy of the annual balance-sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto ; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(2) The auditors shall make a report to the shareholders or to the Governor General in Council, as the case may be, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case they have called for any explanation or information from the Central Board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Central Board, at the annual general meeting.

53. (1) The Bank shall prepare and transmit to the Governor General in Council a weekly account of the Issue Department and of the Banking Department in the form set out in the Fifth Schedule or in such other form as the Governor General in Council may, by notification in the Gazette of India, prescribe. The Governor General in Council shall cause these accounts to be published weekly in the Gazette of India.

(2) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a copy of the annual accounts signed by the Governor, the Deputy Governors and the Chief Accounting Officer of the Bank, and certified by the auditors, together with a report by the Central Board on the working of the Bank throughout the year, and the Governor General in Council shall cause such accounts and report to be published in the Gazette of India.

(3) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a statement showing the name, address and occupation of, and the number of shares held by, each shareholder of the Bank.

54. The Bank shall create a special Agricultural Credit Department the functions of which shall be—

- (a) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Governor General in Council, Local Governments, provincial co-operative banks, and other banking organisations,
- (b) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other banks or organisations engaged in the business of agricultural credit.

55. (1) The Bank shall, at the earliest practicable date and in any case within three years from the date on which this Chapter comes into force, make to the Governor General in Council a report, with proposals, if it thinks fit, for legislation, on the following matters, namely :—

- (a) the extension of the provisions of this Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking, and
- (b) the improvement of the machinery for dealing with agricultural finance and methods for effecting a closer connection between agricultural enterprise and the operations of the Bank.

(2) When the Bank is of opinion that the international monetary position has become sufficiently clear and stable to make it possible to determine what will be suitable as a permanent basis for the Indian monetary system and to frame permanent measures for a monetary standard it shall report its views to the Governor General in Council.

56. (1) The Local Board of any area may at any time require any shareholder who is registered on the register for that area to furnish to the Local Board within a specified time, not being less than thirty days, a declaration, in such form as the Central Board may by regulations prescribe, giving particulars of all shares on the said register of which he is the owner.

(2) If it appears from such declaration that any shareholder is not the owner of any shares which are registered in his name, the Local Board may amend the register accordingly.

(3) If any person required to make a declaration under sub-section (1) fails to make such declaration within the specified time, the Local Board may make an entry against his name in the register recording such failure and directing that he shall have no right to vote, either under section 9 or section 14, by reason of the shares registered in his name on that register.

(4) Whoever makes a false statement in any declaration furnished by him under sub-section (1) shall be deemed to have committed the offence of giving false evidence defined in section 191 of the Indian Penal Code, and shall be punishable under the second paragraph of section 193 of that Code. **XLV**
1860;

(5) Nothing contained in any declaration furnished under sub-section (1) shall operate to affect the Bank with notice of any trust, and no notice

of any trust expressed implied or constructive shall be entered on the register or be receivable by the Bank.

(5) Until Local Boards have been constituted under section 9 the powers of a Local Board under this section shall be exercised by the Central Board in respect of any area for which a Local Board has not been constituted.

VII of 1913. 57. (1) Nothing in the Indian Companies Act, 1913, shall apply to the Liquidation of the Bank. Bank, and the Bank shall not be placed in liquidation save by order of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent. and twenty-five per cent., respectively :

Provided that the total amount payable to any shareholder under this section shall not exceed the paid-up value of the shares held by him by more than one per cent. for each year after the commencement of this Act subject to a maximum of twenty-five per cent.

58. (1) The Central Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely :—

- (a) the holding and conduct of elections under this Act, including provisions for the holding of any elections according to the principle of proportional representation by means of the single transferable vote ;
- (b) the final decision of doubts or disputes regarding the qualifications of candidates for election or regarding the validity of elections ;
- (c) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally, all matters relating to the rights and duties of shareholders ;
- (d) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which votes may be exercised ;
- (e) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons ;
- (f) the manner in which the business of the Central Board shall be transacted, and the procedure to be followed at meetings thereof ;
- (g) the conduct of business of Local Boards and the delegation to such Boards of powers and functions ;
- (h) the delegation of powers and functions of the Central Board to the Governor, or to Deputy Governors, Directors or officers of the Bank ;

- (*) the formation of Committees of the Central Board, the delegation of powers and functions of the Central Board to such Committees, and the conduct of business in such Committees ;
- (j) the constitution and management of staff and superannuation funds for the officers and servants of the Bank ;
- (k) the manner and form in which contracts binding on the Bank may be executed ;
- (l) the provision of an official seal of the Bank and the manner and effect of its use ;
- (m) the manner and form in which the balance-sheet of the Bank shall be drawn up, and in which the accounts shall be maintained ;
- (n) the remuneration of Directors of the Bank ;
- (o) the relations of the scheduled banks with the Bank and the returns to be submitted by the scheduled banks to the Bank ;
- (p) the regulation of clearing-houses for the scheduled banks ;
- (q) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded ; and
- (r) generally, for the efficient conduct of the business of the Bank.

(3) Copies of all regulations made under this section shall be available to the public on payment.

59. In the Indian Coinage Act, 1906, for section 11 the following section shall be substituted, namely :—

Amendment of Act III of 1906. " 11. Gold coins, coined at His Majesty's Royal Mint in England or at any mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices, branches and agencies in India at the bullion value of such coins calculated at the rate of 8.47512 grains troy of fine gold per rupee."

60. The Indian Paper Currency Act, 1923, the X of 1923. Repeals, Indian Paper Currency (Amendment) Act, 1923, XXXVI of 1923. the Indian Paper Currency (Amendment) Act, II of 1925. 1925, and the Currency Act, 1927, are hereby IV of 1927, repealed.

61. In sub-section (3) of section 11 of the Indian Companies Act, 1913, VII of 1913. Amendment of section 11, Act VII of 1913. after the word "Royal" the words "Reserve Bank" shall be inserted.

THE FIRST SCHEDULE.

(See section 4.)

AREAS SERVED BY THE VARIOUS SHARE REGISTERS.

- I. The WESTERN AREA, served by the BOMBAY Register, shall consist of—
the Bombay Presidency including Sind, the Central Provinces, Berar, Hyderabad, Baroda, Khairpur, the Western India States, the Central India States (including Makrai but excluding Rewah and other States of Bundelkhand and Baghelkhand), the Gujerat States, Kolhapur and the Deccan States.
- II. The EASTERN AREA, served by the CALCUTTA Register, shall consist of—
the Bengal Presidency, Bihar and Orissa, Assam, Sikkim, Manipur, Cooch-Bihar, Tripura, the Eastern States, Rewah and other States of Bundelkhand and Baghelkhand, and the Khasi States.
- III. The NORTHERN AREA, served by the DELHI Register, shall consist of—
the United Provinces, Delhi, the Punjab, the North-West Frontier Province, Ajmer-Merwara, Baluchistan, Kashmir, the Punjab States excluding Khairpur, the Simla Hill States, Dujana, Pataudi, Kalsia, Rampur, Tehri-Garhwal, Benares, the Rajputana States including Palanpur and Danta, Gwalior, Khaniadhana, Kalat, Las Bela, Hunza, Nagir, Amb, Chitral, Dir, Phulera and Swat.
- IV. The SOUTHERN AREA, served by the MADRAS Register, shall consist of—
the Madras Presidency, Coorg, Mysore and the Madras States.
- V. The BURMA AREA, served by the RANGOON Register, shall consist of—
Burma, the Andaman and Nicobar Islands, Bawlake, Kantarawadi, and Kyebugyi.

THE SECOND SCHEDULE.

[See section 42 and section 2 (e).]

SCHEDULED BANKS.

Ajodhia Bank, Fyzabad.	Indian Bank, Madras.
Allahabad Bank.	Industrial Bank of Western India, Ahmedabad.
American Express Company Incorporated.	Jalpaiguri Banking and Trading Corporation.
Banco Nacional Ultramarino.	Karnani Industrial Bank.
Bangalore Bank.	Lloyds Bank.
Bank of Baroda.	Mercantile Bank of India.
Bank of Behar.	Mitsui Bank, Bombay.
Bank of Chettinad, Madras.	Muffassil Bank, Gorakhpur.
Bank of Hindustan, Madras.	National Bank of India.
Bank of India, Bombay.	National City Bank of New York.
Bank of Mysore.	Nederlandsche Indische Handels-bank.
Bank of Taiwan.	Nederlandsche Handel-Maatschappij.
Bank of Upper Burma.	Nedungadi Bank, Calicut.
Benares Bank.	Oudh Commercial Bank.
Bengal Central Bank.	Peoples' Bank of Northern India.
Bhagwan Das & Co., Dehra Dun.	P. and O. Banking Corporation.
Canara Bank.	Punjab and Sind Bank, Amritsar.
Central Bank of India.	Punjab Co-operative Bank, Amritsar.
Chartered Bank of India, Australia and China.	Punjab National Bank, Lahore.
Comptoir National d'Escompte de Paris.	Simla Banking and Industrial Company.
Eastern Bank.	Thomas Cook & Sons.
Grindlay and Company.	Travancore National Bank, Tiruvalla.
Hongkong and Shanghai Banking Corporation.	Union Bank of India, Bombay.
Imperial Bank of India.	U. Rai Gyaw Thoo and Co., Akyab.
Imperial Bank of Persia.	Yokohama Specie Bank.

THE THIRD SCHEDULE.

(See section 45.)

PROVISIONS TO BE CONTAINED IN THE AGREEMENT BETWEEN THE RESERVE BANK OF INDIA AND THE IMPERIAL BANK OF INDIA.

1. The Imperial Bank of India shall be the sole agent of the Reserve Bank of India at all places in British India where there is a branch of the Imperial Bank of India which was in existence at the commencement of the Reserve Bank of India Act, 1934, and there is no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance at the places referred to in clause 1 by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council before the coming into force of the Reserve Bank of India Act, 1934, the Reserve Bank of India shall pay to the Imperial Bank of India as remuneration a sum which shall be for the first ten years during which this agreement is in force a commission calculated at one-sixteenth of one per cent. on the first 250 crores and one thirty-second of one per cent. on the remainder of the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India. At the close of the said ten years the remuneration to be paid by the Reserve Bank of India to the Imperial Bank of India for the performance of these functions shall be revised and the remuneration for the ensuing five years shall be determined on the basis of the actual cost to the Imperial Bank of India, as ascertained by expert accounting investigation, of performing the said functions. The remuneration so determined shall thereafter be subject to revision in like manner at the end of each period of five years so long as this agreement remains in force. If any dispute arises between the Reserve Bank of India and the Imperial Bank of India as to the amount of the said remuneration the matter shall be referred for final decision to the Governor General in Council who may require from the Imperial Bank such information and may order such accounting investigation as he thinks fit.

3. In consideration of the maintenance by the Imperial Bank of India of branches not less in number than those existing at the commencement of the Reserve Bank of India Act, 1934, the Reserve Bank of India shall, until the expiry of fifteen years from the coming into force of this agreement, make to the Imperial Bank of India the following payments, namely :—

- (a) during the first five years of this agreement—nine lakhs of rupees per annum ;
- (b) during the next five years of the agreement—six lakhs of rupees per annum ; and
- (c) during the next five years of the agreement—four lakhs of rupees per annum.

4. The Imperial Bank of India shall not without the approval of the Reserve Bank of India open any branch in substitution for a branch existing at the time this agreement comes into force.

THE FOURTH SCHEDULE.

(See section 47.)

SCALE OF ADDITIONAL DIVIDEND PAYABLE TO SHAREHOLDERS.

A. If the maximum rate of dividend fixed under section 47 is five per centum and so long as the share capital of the Bank is five crores of rupees—

- (1) if the surplus does not exceed four crores of rupees—Nil ;
- (2) if the surplus exceeds four crores of rupees—
 - (a) out of such excess up to the first one and a half crores of rupees—a fraction equal to one-sixtieth ;
 - (b) out of each successive additional excess up to one and a half crores of rupees—one-half of the fraction payable out of the next previous one and a half crores of excess :

Provided that the additional dividend shall be a multiple of one-eighth of one per cent. on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent. on the share capital.

B. If the maximum rate of dividend fixed under section 47 is below five per centum, the said fraction of one-sixtieth shall be increased in the ratio of the difference between six and the fixed rate to unity.

C. When the original share capital of the Bank has been increased or reduced, the said fraction of one-sixtieth shall be increased or diminished in proportion to the increase or reduction of the share capital.

THE FIFTH SCHEDULE.

(See section 53.)

RESERVE BANK OF INDIA.

An Account pursuant to the Reserve Bank of India Act, 1934, for the week ending on the _____ day of _____

ISSUE DEPARTMENT.	
<i>Liabilities.</i>	<i>Assets.</i>
Rs.	Rs.
Bank Notes held in the Banking Department	A. Gold coin and bullion—
Bank Notes in circulation	(a) held in India
Total Bank Notes issued	(b) held outside India
Government of India Notes in circulation	Sterling Securities
	Total of A
	B. Rupee coin
	Government of India rupee securities
	Internal bills of exchange and other commercial paper
Total Liabilities	Total Assets

Ratio of total of A to liabilities per cent.

Dated the _____ day of _____ 19 .

BANKING DEPARTMENT.	
<i>Liabilities.</i>	<i>Assets.</i>
Rs.	Rs.
Capital paid up	Notes
Reserve Fund	Rupee coin
Deposits—	Subsidiary coin
(a) Government	Bills discounted—
(b) Banks	(a) Internal
(c) Others	(b) External
Bills payable	(c) Government of India Treasury Bills
Other liabilities	Balances held abroad
	Loans and advances to the Government
	Other loans and advances
	Investments
	Other assets
Total Liabilities	Total Assets

Dated the _____ day of _____ 19

GOVERNMENT OF INDIA.
LEGISLATIVE DEPARTMENT.

BILL
TO
Constitute a Reserve Bank of India.

*(As passed by the Legislative Assembly
and amended by the Council of State.)*

Registered No. C1646.

Indian Finance

Reserve Bank Inauguration Number

Vol. XV. No. 18

APRIL 1935

Price Rs. 3

RESERVE BANK OF INDIA

(INCORPORATED UNDER THE RESERVE BANK OF INDIA ACT II—1934)

BANKERS TO THE GOVERNMENT OF INDIA

Governor :

SIR OSBORNE A. SMITH, K.C.I.E.

Deputy Governors :

J. B. TAYLOR, C.I.E.

CAPT. SARDAR SIR SIKANDAR HYAT KHAN, K.B.E.

OFFICES OF THE
BANKING DEPARTMENT

BOMBAY

CALCUTTA

DELHI

MADRAS

RANGOON

BRANCHES OF THE
ISSUE DEPARTMENT

BOMBAY

CALCUTTA

CAWNPORE

KARACHI

LAHORE

MADRAS

RANGOON

London Bankers :

THE BANK OF ENGLAND

PROSPERITY

*You can achieve prosperity and deprive
adversity of its misfortune by setting
aside a portion of your income.*

THE PUNJAB NATIONAL BANK LIMITED.

has for 40 years, since 1895, helped the nation to save
through Savings Fund Accounts which can
be opened and terms ascertained
at following offices :

Head Office. THE MALL, LAHORE.

Abbottabad	Hafizabad	Moga
Abohar	Hoshiarpur	Montgomery
Agra	Hyderabad (Sindh)	Multan City
Allahabad	Jammu	Okara
Ambala Cantt.	Jaranwala	Patiala
Ambala City	Jhang Maghiana	Peshawar Cantt.
Amritsar	Jhelum	Peshawar City
Bombay	Jullundher City	Qila Sheikhupura
Calcutta	Karachi	Quetta
Cawnpore	Kasur	Rawalpindi City
D. I. Khan	Lahore City	Sargodha
Delhi	Ludhiana	Sialkote City
Ferozpur City	Lyallpur	Srinagar (Kashmir)
Gujranwala	Meerut City	Simla

SIR OSBORNE A. SMITH
Governor of the Reserve Bank of India



Message

With the publication of this, your Reserve Bank Inauguration Number, congratulations are due to you that your strenuous advocacy over a long period, and your conceptions, have borne fruit.

Perhaps no other journalist in India has made a closer study of Central Bank principles; and it must, indeed, be a satisfaction to you to realise that your pen has contributed so largely to the general goodwill that the Indian public has accorded the new institution.

28th March, 1935.

Osborne A. Smith

the latter by the pursuit of an intelligent policy in regard to the level of prices. Prices obviously mean the purchasing power of the national currency; and this has two sides, internal and external. The external purchasing power raises the question of the exchange value of the national currency. We thus come to the position that credit, prices and the exchange sum up the main responsibility of a central banking institution. These flow from the function of finance as a handmaid to industry; and from these are derived the various specific tasks such as the fixing of the bank-rate, the rediscounting of bills, open market operations, the maintenance of prices and the control of the exchanges. It is with these specific obligations that the public is familiar. But it is obvious that these questions cannot be followed with any intelligent interest, except of a sectional kind, unless it is remembered that the main responsibility of a central banking institution is in reference to the national economic system and not to the money and exchange markets or to big finance or big business.

It is only if we overcome the limitations caused in our outlook by the conception of a central bank as a mere mentor of the money market that we can rescue the Reserve Bank of India from the fate which has befallen the central banks of other countries and make finance a true handmaid to industry instead of being the slave of big financiers. Though central banking is more than a century old, and though central banks like the Bank of England had functioned efficiently within the sphere they had prescribed for themselves, the relation of a central bank to a national economic system has been clarified only recently. The example of the Bank of England in a country, in which foreign trade and the financing of international trade have been a large part of the national economy, has served to obscure certain aspects of the working of a central bank. These aspects are more important in countries which have far less of foreign trade and little or nothing of financing of international trade. Even in Great Britain the preoccupation of the Bank of England with the City and the City interests had meant a neglect of industry, the bitter consequences of which Britain is reaping today.

CONTENTS

	Page.
The Mission of the Reserve Bank	1-7
Reserve Bank of India Statement	9
Empire Central Banks By Sir Cecil Kisch, K.C.I.E., C.B.	11-12
The Reserve Bank and Monetary Policy By Professor Adarkar	13-19
Central Bank and Economic Depression By Dr. Paul Einzig	21-23
The Reserve Bank of India By Dr. P. S. Lokanathan	24-25
Changes in Central Bank Technique By Dr. Paul Einzig	27-28
The B. I. S. And Its Future By Dr. Paul Einzig	29-31
Bank Statistics	32-37
Reserve Bank of India Act 1934	39-51
Imperial Bank of India Amendment Act	52-56
Canadian Reserve Bank Act	57-60

During the post-War period, British Industry was losing its foreign markets due, among other things, to the inability of British industries to carry out a programme of rationalisation. Even the most important industries were, as the phrase goes, "on the bank." And apart from its lack of interest in the financial requirements of industry, the Bank of England also imposed an additional handicap by advocating and bringing about an overvaluation of the pound. If the Bank of England to-day is unpopular in circles, which are devoted to British industry as distinct from the City, it is because of the many sins of commission and omission with which British Industry may well charge Britain's central banking institution. It would, perhaps, be unfair to suggest that the Bank of England authorities were deliberately partial to the financial interests of the City or wilfully neglectful of the requirements of British industry. It is due mainly to the hazy perception of the main functions of central banking. In a country like America, the comparatively minor importance of foreign trade has not helped the Federal Reserve Banking system to have a livelier sense of responsibility towards the producers for internal consumption. For years, the general level of prices had gone down to a level at which little or no productive activity could be carried on on a remunerative basis. And it was not till the advent of Mr. Roosevelt in White House that the Federal Reserve Banks were rudely awakened to their duties to national industry. And even during the Roosevelt regime, the President had had to obtain from Congress dictatorial powers over the Federal Reserve System. And where Congress was disinclined to give such powers, Mr. Roosevelt has had to devise his own methods of bringing pressure to bear upon the Federal Reserve Officials. Germany is, perhaps, the only nation, which under pressure of adversity has caused its Reichsbank to serve industry and, in fact, all manner of productive activity to the best of its ability.

INDEX TO ADVERTISERS

Name.	Page.
American Express Co., Inc.	28
Allahabad Bank Limited	20
Bank of India Limited	18
Bank of Hindusthan Limited	22
Bank of Mysore Limited	28
Banco Nacional Ultramarino	7
Benares Bank Limited	14
Bombay Provincial Co-operative Bank Limited	4
Blackwood, Blackwood & Co.	8
Canara Bank Limited	17
Chartered Bank of India, Australia and China	12
Central Bank of India Limited	8
Comptoir National De Escompte de Paris, (French Bank)	10
Comilla Uniond Bank Limited	17
Felt & Tarrant (India) Co.	6
Grindlay & Co., Ltd.	30
Government of Mysore (Industrial Products)	26
Hongkong and Shanghai Banking Corporation	10
Imperial Bank of India	Back Cover Page
Indian Bank Limited	4
Jupiter General Insurance Co., Ltd.	18
Lakshmi Insurance Co., Ltd.	8
P. & O. Banking Corporation Limited	28
Premier Hosiery Factory	8
Punjab National Bank Limited	ii
Quilon Bank Limited	30
Reserve Bank of India	Front Cover Page
State Aided Bank of Travancore Ltd.	14
Travancore National Bank Limited	iii
Thomas Cook & Son (Bankers) Limited	10
United India Life Assurance Co., Ltd.	20

The instances we have cited before should suffice to impress the Indian mind with the gravity of the consequences which would follow the indifference of a public which will allow its central banking institution to serve anything but the good of the nation as a whole.

To clarify the true aims and methods of the Reserve Bank of India, one will, therefore, have to expend a great deal of thought on the salient features of India's national economy, as it is to-day, and as it would have to be, if the interests of the masses and the aspirations of those who seek to serve them are to be realised. We have to note, in the first place, that Indian economy as it is to-day is predominantly agricultural and that, even if our wildest dreams of industrialisation were to be realised, the importance of agriculture will at least be equal to that of industry.

In formulating its policy and in developing its technique the Reserve Bank will have to bear in mind that it is functioning in a country which is now predominantly agricultural and in which the importance of agriculture will at all times be paramount. It is a different question whether a central bank can help agriculture in the same way it can help, and has helped, industry. We shall have more to say of this later. Here we are concerned with the lines on which the intelligent layman should think out the problems of central banking in a country like India. It should suffice if he remembers he should not imbibe his ideas from books which deal with the working of the Bank of England. We have shown how inadequate it was even from the standpoint of an industrial and exporting country like Great Britain. One can, therefore, imagine how much more inadequate it should be in India.

One should not, however, make the mistake of under-rating the difficulties in the way of the Reserve Bank trying to provide credit for agriculture in the same way in which it provides credit for industry. The liquidation of credit in the case of the former

has been found in every age and clime to be more difficult than in the case of the latter. But there is no reason why the difficulties should be insuperable. From the standpoint of provision of credit, the difference between agriculture and industry arises from the fact that the former is less organised than the latter. The processes of production and marketing are less smooth than in industry. There are, it may be added, more uncertainties attendant on the growing of a crop in a farm than on finishing raw materials in a factory. The units of production in industry are larger. The average industrialist is a keener individual than the average agriculturist, that is, from the standpoint of business. All said and done, there is no difference between agriculture and industry which is altogether indelible and which need necessitate for all time at the hands of the Reserve Bank a step-motherly treatment for agriculture.

All that the Reserve Bank can ask is that the conditions of agriculture should, from the point of view of the lender, approximate as nearly as possible to the conditions of industry. This, it will be readily seen, is largely a question of organisation. When agriculture is organised on a co-operative basis and when the co-operative system functions efficiently, agriculture might be said to be eligible for Reserve Bank credit as well as industry. In the first place, the co-operative spirit will have converted the stolid farmer into as keen an individual as the average industrialist is reputed to be. The power of bargaining, whether in buying the means of production or in marketing the produce, will have been immeasurably enhanced. When a large association of agriculturists functions as one unit, agriculture, for all purposes of credit, functions as a large-scale unit. The processes of production and marketing are more smooth. Co-operation will have instilled into the mind of each agriculturist the importance of living within one's means and putting by something for the rainy day. The liquidation of agricultural credit will then be no

MONROE

THE MACHINE FOR FIGURING YOUR



Invoices	Interest items
Payrolls	Prorations
Costs	Statistics
Inventories	Commissions
Estimates	Depreciation
Discounts	Overhead
Percentages	Foreign Exchange
Sales	

For the small business it is the general utility machine—the first machine that should be purchased.

For the large business it is the machine of unlimited adaptability which will handle every kind of problem that may come up.

For descriptive catalogue and prices apply to

SOLE AGENTS:

BLACKWOOD BLACKWOOD & CO.
4, LYONS' RANGE . . . CALCUTTA

ALL KINDS UNDERWEAR

IN COTTON, SILK AND WOOL

FOR

GENTS, LADIES AND CHILDREN

BEST AND CHEAPEST

Banians, Drawers, Combinations and
Bathing Costumes.

OUR SPORTS SHIRTS—A SPECIALITY

THE
PREMIER HOSIERY WORKS, LTD.
CALICUT.

INDIAN BANK, LD.

(ESTABLISHED IN 1907.)

HEAD OFFICE :--(North Beach Road) MADRAS.

LOCAL OFFICES } Esplanade (Popham's Broadway), Triplicane (Big Street), Mylapore
IN MADRAS. } (Brodies Road) and Mambalam (Prakasam Road), Theagarajanagar.

BRANCHES :--Alleppey, Bangalore, Cochin, Coimbatore, Colombo, Guntur, Madura and Tuticorin.

SUB-OFFICES :--Tirupur, Bezwada, Tenali and Gudivada

Authorised Capital Rs. 60,00,000

(Divided into 60,000 shares of Rs. 100 each)

Issued and Subscribed Capital Rs. 47,92,800

Paid-up Capital as on 15th Febraury, 1935—

20,000 shares of Rs. 100/- each, Rs. 50/- paid up Rs. 10,00,000
27,928 shares of Rs. 100/- each, Rs. 10/- paid up Rs. 2,79,280

Reserve Fund Rs. 13,00,000
Contingent Fund Rs. 2,25,000
Dividend Equalisation Fund Rs. 1,80,000

Current Accounts opened free of charge and interest allowed on daily balances (see detailed rules).
No incidental charges made.

Savings Bank Deposit Accounts opened with sums as low as Rs. 5/- and interest allowed on daily balance at 8½% per annum.

Fixed Deposits received at rates of interest which may be ascertained on application.

Loans, Overdrafts and Cash Credits: The Bank grants accommodation against approved securities on terms which may be arranged.

All kinds of Agency and Banking Business transacted.

For Rules of Business and other particulars, please apply to any Office of the Bank.

P. S. SURYASEKARAN, Secretary.

The Bombay Provincial Co-operative Bank, Ltd.

HEAD OFFICE :

APOLLO STREET, FORT, BOMBAY.

BRANCHES :

Baramati	District Poona.	Bhiwandi	District Thana.	Shahada	District West Khan-
Islampur	Satara.	Palghar	" "	Sakri	desh.
Karad	" "	Kalyan	" "	Sindkheda	" "
Tasgaon	" "	Akluj	Sholapur.	Malegaon	Nasik.
Satara	" "	Viramgam	Abmedabad.	Satana	" "
Kirloskarwadi	" "	Dhulia	West Khan-	Kalwan	" "
Shirala	" "		desh.	Dohad	Panch Ma-
Koregaon	" "	Dondaicha	" "	Kaloi	hals.
Kopergaon	Ahmednagar.	Nandurbar	" "		
Shevgaon	" "	Shirpur	" "		
Ahmednagar	" "				

DIRECTORS :

Sir Chunilal V. Metha, K.C.S.I.	G. P. Murdeshwar, Esq.	R. N. Rajadnya, Esq.	C. M. Gandhi Esq.
Sir Lalubhai Samaldas, Kt.	G. K. Devadhar, Esq.	A. P. Kulkarni, Esq.	Rao Bahadur R. V. Vandekar
Madhowjee D. Thackersey, Esq.	S. N. Keshvain, Esq.	D. W. Raut, Esq.	V. L. Metha, Esq.
R. G. Sariaya, Esq.	Prof. V. G. Kale	F. B. Laxmeshwar, Esq.	

SHARE CAPITAL (Fully Paid) Rs. 12,96,900

1. DEPOSITS fixed for one year and shorter or longer periods are accepted. Rates and other particulars may be ascertained from the undersigned.
2. CURRENT ACCOUNTS are opened for Co-operative Societies and individuals. Interest is allowed on daily balances not exceeding Rs. 1,00,000.
3. SAVINGS BANK DEPOSITS are accepted and interest paid at 2½ per cent. on minimum monthly balances. Rules may be obtained from the undersigned.
4. Drafts are issued on district and other towns on terms to be ascertained on application.
5. The Bank finances only registered Co-operative Societies in the Bombay Presidency, on the recommendation of the Registrar, Co-operative Societies, Bombay Presidency.
6. Accounts are audited quarterly by a firm of Incorporated Accountants and yearly by a Special Government Auditor, Quarterly statements of financial position are published in the "Bombay Government Gazette".

VAIKUNTH. L. METHA,

Managing Director.

more difficult than the liquidation of credits to industry.

The paramount problem of Indian economy is to organise agriculture on these lines. Doubtless, a multiplicity of problems, which have little to do directly with banking or central banking, will have to be solved before agriculture is organised. Illiteracy, rural indebtedness, methods of cultivation, the inculcation of the co-operative spirit and educational work of various kinds other than imparting a knowledge of reading and writing are involved. With these, the Reserve Bank, or any bank for the matter of that, has little to do. But in the organisation of agriculture on a co-operative basis, it will make a great deal of difference whether the Reserve Bank keeps a sympathetic and helpful attitude or a needlessly censorious and obstructive attitude. A liberal policy of credit to co-operative institutions will, doubtless, be needed. While it is dangerous to under-rate the risks or the consequences of mistakes of policy, it would be folly to delay progress by excessive conservatism or refusal to take necessary risks.

Service to agriculture will be the touchstone of success for India's central bank. Though this question comes up last in most discussions of central banking in India, we have put this first as we would not like to see the public mind diverted from it in consideration of the difficulties involved.

The authorities of the Reserve Bank have equally a right and duty to go into this question with an open mind. They may regard it as an open question whether the needs of agriculture require to be served in a special way. It might well prove—and it would be very fortunate, indeed, if it does—that, when indigenous banking is purified, better organised and enabled to function more organically, the needs of the agriculturist are met adequately. It is accepted on all hands that banking amenities are well-spread over the whole country. What is wrong is that on the one side, banking practice and methods are not pure or efficient and on the other, the borrower is not fully credit-worthy. It is an old mechanism, with some parts worn out, some ill-fitted, the whole of it dusty and clogged, unattended for centuries. Before it is cleaned and repaired and set on a trial run, one need not rush to the conclusion that it is ill-suited and ought to be replaced by another of new make and different design. The mechanical analogy, too, it must be realised, is misleading. Social customs and institutions are biological rather than mechanical. They grow in the soil; and even if the overgrowth of ages is cleared, what comes in its place will have to strike its roots in the soil. And there are countless instances of age-old trees discovering within their aged exteriors a young and vigorous sapling of unsuspected potentialities.

It might well be the case with India's indigenous banking. It is not only unjust, but it would be a folly, too, to pre-judge its potentialities. The Reserve Bank, if it approaches its problems with an open mind, will make no conclusions before it has concluded its task of bringing about the unity of India's money and capital market. The unification of the Indian money market is thus the paramount task of the Reserve Bank of India.

The unification of the Indian capital and money market is necessary if finance is to function smoothly and efficiently in the national economic system. At present in India our capital resources are lying about in pools scattered all over the country in the form of hoards. For reasons some of which may be traced to the distant past and some can be attributed to the mistaken policy of the British Government, India has been—though less so of late—a country of hoards. These hoards ought really to swell the capital resources of the nation; and when they do, they would obviously serve the double purpose of procuring an income for their present owners and helping forward the economic development of the country. How the Reserve Bank is to succeed in its endeavours to coax the savings of the people from the

hoards is a matter on which *Indian Finance* had formerly expressed its own opinion, but which in the changed circumstances, is worthy of a separate enquiry. It is possible that monies will come out of hoards out of their own accord, when the expansion of productive activity within the country holds out the chances of reaping good dividends from new enterprises.

The unification of the Indian capital market in the sense of thawing the frozen hoards must be considered to be one of the more distant objectives of the Reserve Bank. But a more immediate task is that of unifying the Indian money market. It is well-known that the Indian money market, which is at present the subject of the weekly reviews of *Indian Finance*, is confined to the principal cities and comprises only the resources of the Imperial Bank of India, the Exchange Banks and the Indian Joint Stock Banks, to which may also be added some of the big export and financial houses. The activities of the indigenous bankers have but the loosest connection with the money market as we know it in the cities. It is not to be supposed that, because the activities of indigenous banking are not so much in the public eye and do not figure in the weekly report of financial journals and dailies, its importance to India is to be under-rated. On the other hand, if agriculture represents by far the most important branch of economic activity in India, then it must be said that the importance of indigenous banking exceeds that of the modernised banks in the Metropolitan cities and in the urban areas. Indigenous bankers have so far met the needs of agriculturists with a curious blend of severity and sympathy. The rates of interest charged are mostly unconscionably high. But the rural bankers have always accommodated themselves to the circumstances of their debtors. It is a very significant fact that while in other countries credit crises of various kinds have been precipitated, in a country like India which has an age-old indebtedness there has not been any appreciable increase of the efforts of creditors to fore-close.

But the lack of an organic relation between indigenous banking and organised joint stock banking and the rest of the money market proper, has involved serious handicaps for the country. For one thing, lack of unity in the money market has meant a lack of uniformity in interest rates which is most unhelpful. If the Indian money market continues in its present disorganised state, the Reserve Bank will be hard put to it to pursue any intelligible or effective credit policy. When interest rates are not uniform, not only will the credit policy be ineffective, but even the reaction of prices to changed circumstances will be slow and unnatural. The indices of the state of business and economic progress would be distorted and unreliable. And, above all, capital cannot flow into the channels of the utmost productivity with the same ease as it does in foreign countries; and the result would be that even the most creditworthy would often have, by reason of their geographical location, to pay unreasonably high rates of interest.

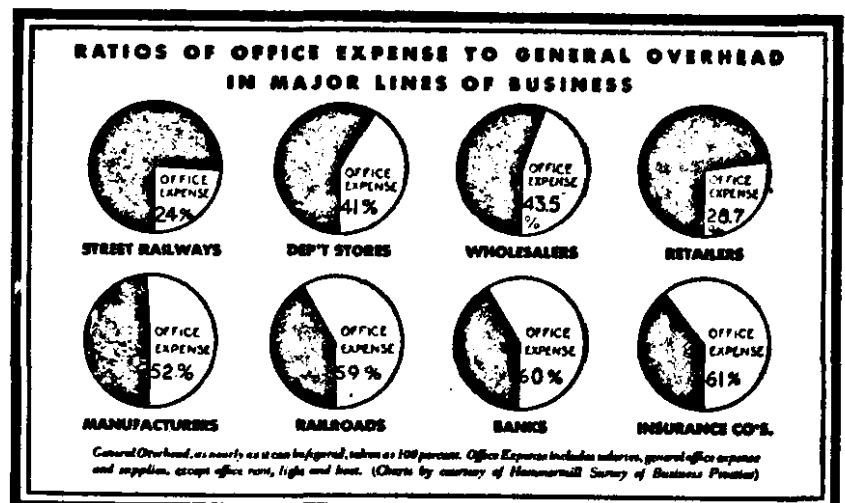
It is for these reasons that the Reserve Bank authorities will have to explore the means of establishing an organic connection with indigenous banking in all parts of the country. This will, doubtless, have to be done by enabling indigenous banks to take their place within the framework of the national banking system headed by the Reserve Bank. There can be no doubt that, as they are, the indigenous banks are neither eligible for the status of members of the reserve banking system nor will they find it easy to avail themselves of the facilities and amenities afforded by the Reserve Bank. The former would require a purification. Indigenous banking has, in a majority of cases, been virtually an euphemism for usury. In fact, it is hardly an exaggeration to say that the poisonous weeds of usury

have thriven for ages in this country. Scientific banking can hardly grow in such a soil till it has been thoroughly weeded out. The elimination of usurious practices is, in the correct view, a task for both the provincial governments and for banking. On the one hand, the provincial governments have to tackle adequately the problem of rural indebtedness. Already there are signs that governments have had their conscience stirred in this matter. Legislation in respect of rural indebtedness has been undertaken in more than one province, and though, in some instances, zeal for ending the evil has somewhat outrun prudence, there can be no doubt that there is no mending a situation like this and that it has to be ended. The solution of the problem of agricultural indebtedness in India can only be given a start by the provincial governments undertaking the necessary legislation. But, in the last resort, the cure must be said to lie in the hands of the agriculturist himself who will have, as we hinted earlier, to learn to live within his means and to respect his obligations. In this, the leaders of co-operation have a great deal to do, and it may be said, therefore, that co-operation and the provincial governments can prepare the ground for the Reserve Bank to come in and effect the necessary reorganisation. Usury has flourished because the soil has been ready for it. When the opportunities for usury are eliminated by proper legislation and the spread of the co-operative habit, it may be taken as certain that indigenous banks will be rid of most of their present abuses and

that they would be prepared to re-organise themselves on the basis of a more convincing honesty of dealings. There will then be no impediment in the way of indigenous banks publishing their balance sheets and satisfying the requirements of the Reserve Bank of India. When that position is obtained, then the banking system of the country will be unified and the money market in India would function as one organic unit.

While our main purpose in this article is to indicate the ultimate mission of the Reserve Bank and the ideals which it should keep before it as also the demand which public opinion should be constantly making upon the Bank, it is also necessary to draw attention to the immediate tasks. It is well-known that the Reserve Bank of India comes to be inaugurated at a time when the giltedge market is under a thick cloud. In and about the time of the inauguration, giltedge prices have dropped by a number of points and the decline has been so sharp and the recovery so feeble and short-lived, that there is hardly anyone who confidently looks forward to the rise of prices to economic levels. While at the close of the year 1933-34, $3\frac{1}{2}$ per cent. paper was believed on all hands to be bound for par and that it should soon be possible for the Government to effect conversion of even this irredeemable paper to a lower interest basis, $3\frac{1}{2}$ per cent. to-day came down by the beginning of April to below Rs. 88. The money market, too, is in a state of chronic stringency. The disequilibrium between the demand and supply of money has continued for nearly

Is your office overhead ratio TOP - HEAVY ?

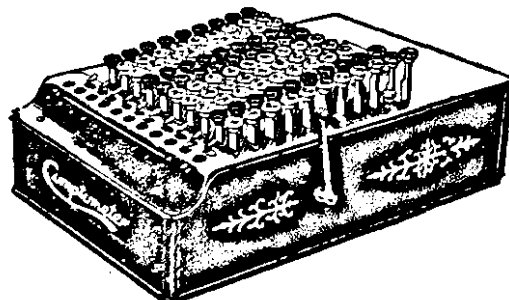


In periods of declining prices and profits, the ratio of office overhead inevitably rises.

When that happens, attention too often centers first upon the figure work of accounting as a convenient place to start cutting down overhead.

Careful management, however, does not act summarily. It first seeks means of equalizing the expense ratio by lowering figure work costs without loss of efficiency.

That can be done. It is being done every day, by the Comptometer.



Unless your overhead on the distribution of Sales, Labour, Expense, Material; on figuring Invoices, Inventories, Payrolls, Costs and Audits, is already at the minimum, the Comptometer will show you a saving. How much, can be determined easily in advance, by a survey of your work, verified by a performance test.

There is always a Comptometer man at your service for a verified survey; or for consultation about this or any other problem relating to lower figure work costs.

If not
made by
Felt & Tarrant
it's not a
Comptometer

CONTROLLED-KEY
Comptometer
1111 G. Tarrant Bldg. Co. Chicago, U.S.A.
ADDING AND CALCULATING MACHINE

Only the
Comptometer
has the
Controlled-Key
safeguard

FELT & TARRANT (INDIA) CO.

Head Office: 4, LYONS RANGE, CALCUTTA

Telephone: Call 1218

Telegrams: "Garfelt"

Branches:

Bombay - Madras - Colombo - Rangoon

four months. Though such stringency is by no means unseasonal in this part of the year, no one, who has been in touch with developments will contend that it is the kind to which the Reserve Bank can be largely indifferent. The stringency has developed mainly through the banks having had to finance a big bull position in giltedge and in the share markets. It may be suggested that a central banking institution ought not to countenance, much less aid, speculation in stocks. But in this instance, the prices to which the majority of stocks had been worked up were economic prices and the stock exchange activity, therefore, cannot be called speculative. The recovery of stock prices to the levels justified by their intrinsic worth is, undoubtedly, part of the general economic recovery which it should be, unquestionably, the aim of any central bank to help forward.

There are, we believe, some doubts as to the responsibility of the Reserve Bank in the maintenance of giltedge prices. It is a simple economic truth that the yield on giltedge is an index of the general level of interest rates in the long view and of the state of the money market in the short view. If at any time, for reasons, which are within the control of the Currency Authority, giltedge sinks to low levels, one may assume that the outlook of industry, in so far as it is determined by the level of interest rates, will be unduly gloomy. In this view, the maintenance of giltedge prices is one of the objectives which the Reserve Bank has to keep before it. Another reason is that a central bank has always to work in close collaboration with the Treasury. A fall in Government credit has its repercussions in all spheres of the national economy. In the first place, the taxpayer has to view the decline of Government credit with the greatest alarm. For not only is it a slur on the nation, but it means that he will have to foot a bigger bill of interest charges. The higher yield on giltedge will also divert investment from the channels of trade and industry. We may urge, therefore, that the Reserve Bank should open its career with a striking gesture to the giltedge market.

As for the money market, the question of offering relief to the present stringency easily broadens out into the larger issue of expansion of currency. The bane of India's finances is the deflationary predeliction of the Government of India. Their interest in the markets is confined to the purchase of the requisite amount of sterling for the Secretary of State for India and a fair degree of prices in giltedge for the sake of the new loan issue in each year. It is obvious that the Reserve Bank of India cannot justify its existence if it is to inherit along with the currency reserves the same attitude to credit and currency as the Government of India had. That at the moment the money market is going through a phase of extreme stringency should provide a welcome opportunity for the first departure from the traditional policies of the Government of India. It is up to the Reserve Bank to show that it recognises its duties to the money market and to trade and industry and that, when expansion of currency is clearly called for, it will not be deterred from effecting it by the well-known ideas of the Government in this matter.

Here as in the case of giltedge, we deem it our duty to insist that the Reserve Bank should continue to preserve the same solicitude for healthy credit conditions and that in this country healthy credit conditions are almost synonymous with timely doses of inflation. We have in earlier portions of this article emphasised that the level of prices is one of the chief responsibilities of the Reserve Bank. In a country, in which agricultural production is carried on largely on an unremunerative basis, the Reserve Bank can have no doubt that for some time it has to pursue a distinct and unmistakable policy of inflation till the effects are noticable on prices.

We are aware that such a policy of inflation might endanger the present rupee rate. On this question, it is bare common sense that the Reserve Bank should preserve an open mind. It is now generally agreed

both amongst economists and Indian businessmen that the abandonment of the gold standard has not had the effect of restoring to the rupee its natural level of external purchasing power; and it has always been our view that exchange rate ought to be suited to the general requirements of the national economy and not *vice versa*. The acid test of the Reserve Bank's devotion to the cause of Indian economy will come over the question of the exchange rate; and we prefer to believe that, when the time comes, Sir Osborne Smith and his colleagues will be found to be capable of taking a scientific and correct view, free from the determined prejudices of the Government and the India Office in favour of the 18d. ratio.

We have hitherto considered the duties of the Reserve Bank from the standpoint of the internal economy. But the new institution has, undoubtedly, its obligations to international finance also. There is practically no function of the Reserve Bank which does not impinge, to a greater or less extent, on the wider international problems. Sir Cecil Kisch, whose contribution to this issue will be read with the greatest interest all over the world, draws attention to the fact that the Reserve Bank comes into being in India along with similar institutions in other parts of the Empire and emphasises the importance of the Empire Central Banks working in unison. In so far as the sterling area is the one part of the world which is free from upsets and uncertainties, it will be good for the Empire and the world if the advantages of a stable standard of value were fully demonstrated. But, as Sir Cecil himself indicates, the ultimate aim of every central bank must be the restoration of an international monetary standard and its smooth and efficient working thereafter. We said at the start that the Reserve Bank is one of the attributes of financial autonomy. Equally may it be said that the task of the Reserve Bank is to realise the financial destinies of India and to enable India to take her place in international finance.

BANCO NACIONAL ULTRAMARINO

STATE BANK OF PORTUGUESE COLONIES

(INCORPORATED IN PORTUGAL)

The Banco Nacional Ultramarino has 76 Offices all over the world.

It also has thousands of Agents in every commercial and industrial centre.

The Bombay Branch accepts Current, Fixed and Savings Bank Deposits at the best possible rates of interest.

All kinds of Banking Business are transacted at the most favourable terms.

Bombay Office :

10, CHURCH GATE STREET,

F. GARCIA da SILVA

Manager.

THE MARCH OF PROGRESS

YEAR	BUSINESS IN FORCE	LIFE FUND
1925	Over 21 Lakhs	Rs. 500
1929	Over 166 Lakhs	Rs. 9,32,000
1933	Over 304 Lakhs	Rs. 37,94,000
	Claims Paid Exceed	Rs. 8½ lakhs.

FIGURES FOR 1933-34.

New Business	...	Rs. Over One Crore.
Life Fund	...	Exceed Rs. 49 Lakhs.

Through its progressive ideas, prompt service and liberal treatment of the policyholders, the Lakshmi Insurance Company has risen to a position of leadership which many other Companies twice its age have not yet attained.

To give efficient and helpful service to its clients is the Company's constant aim and the foundation of its continued growth.

Take a Policy with this Progressive Company.

LAKHSMI INSURANCE COMPANY, LIMITED,

Head Office : McLEOD ROAD, LAHORE.

"YOUR OWN BANK"

THE CENTRAL BANK OF INDIA, LTD.

ESTABLISHED DEC. 1911

HEAD OFFICE : BOMBAY

PROGRESS

Year	Capital Subscribed	Capital Paid-up	Deposits
1912	30,00,000	15,00,000	1,20,00,000
1917	50,00,000	25,00,000	3,57,00,000
1922	1,00,00,000	50,00,000	13,22,00,000
1927	3,36,26,400	1,68,13,200	15,52,00,000
1932	3,36,26,400	1,68,13,200	20,11,00,000
1934	3,36,26,400	1,68,13,200	24,47,00,000

DIRECTORS

The Hon. Sir Phiroze Sethna, Kt., O.B.E.,
Chairman.

Ardeshir B. Dubash, Esq.

Nawab Sir Akbar Hyderi, Kt.

H. P. Mody, Esq.

Sheriff Devjee Kanjee, Esq.

Haridas Madhavdas, Esq.

Dinsha D. Romer, Esq.

Vithaldas Kanji Esq.,

Sir Sorabji N. Pochkhanawala, Kt.,

Managing Director.

7 Local Branches in Bombay, 3 in Calcutta and more than 60 Branches,
Sub-Branches and Pay-Offices throughout India.

HOME SAVINGS ACCOUNTS, SAFE DEPOSIT VAULT, GOLD BARS, EXECUTOR & TRUSTEE CO.
8 YEARS CASH CERTIFICATES, LADIES' DEPARTMENT & DEPOSITORS' INSURANCE SCHEME
are the special attractions

THE ONLY "SWADESHI" EXCHANGE BANK IN INDIA

RESERVE BANK'S FIRST WEEKLY STATEMENT

Through the courtesy of the Chief Accountant of the Reserve Bank, we were supplied, in time for going to press, copies of the first returns of the Issue and Banking Departments of the Bank. This symbolises the amalgamation of the Paper Currency Reserve and the Gold Standard Reserve; and it is necessary to explain the final result.

The main point of interest is the External Reserve, that is, gold plus sterling securities. It is noteworthy that the entire stocks of gold in P. C. R. and G. S. R. have been transferred to the Bank; and while the book value of the yellow metal is Rs. 44.42 crores, it is to be noted that it is on the basis of, the old parity. There is a hidden profit of nearly Rs. 30 crores.

As for sterling securities, the position is as under:

Total of sterling securities in P. C. R. and G. S. R. as on March 31 was Rs. 68.76 crores. Of these, only Rs. 60.58 crores of sterling assets has been handed over to the Bank, Rs. 48.63 crores to the Issue Department and Rs. 11.95 crores to the Banking Department. What has happened to the balance of Rs. 8.18 crores?

This has been, presumably, used for the making up of the Silver Redemption Fund. But it seems to us that such diversion is not in consonance with Sir James Grigg's observation on the Silver Redemption Fund in his budget speech. His exact words were:

"It was originally intended that the Reserve should be gradually built up to a maximum of Rs. 10 crores which would be sufficient to meet a return of 25 crores of rupees by the Bank. Owing to the large remittance which it has been possible to make during the current financial year, the balances at the disposal of the

Secretary of State will now be sufficient to enable the Fund to be constituted with the full amount of Rs. 10 crores with effect from the 1st of April, 1935."

The impression given by Sir James's remarks was that the Fund would be set up from the surplus in the Home Treasury balance. The Bank should have insisted on getting the entire sterling assets as they stood at the year-end in the two reserves.

Another interesting point is that the handing over of Rs. 11.95 crores in sterling assets to the Banking Department means that the cash balance of the Government has been increased by this amount. We may, therefore, say that the inauguration of the Reserve Bank has meant an increase of Rs. 12 crores in Government's resources. This should greatly add to the comfort of Government's ways and means position.

At the same time, the banking department of the Reserve Bank starts with sterling assets adequate to tide over a period of weak exchange and of poor remittances through the market.

One word more. And that is about the Reserve Fund of Rs. 5 crores which has been created out of the funds transferred by the Government. Evidently, this transfer has taken the form of securities which should have remained in the hands of the Government out of the earlier open market purchases and out of the portions taken up in some of the recent loans. The five crores of 'Investments' shown on the assets side in the return of the Banking Department must represent these securities transferred from Government.

The Bank has thus ample resources to undertake open-market operations.

RESERVE BANK OF INDIA

ISSUE DEPARTMENT

An Account pursuant to the Reserve Bank of India Act, 1934, for the week ending on the 5th day of April, 1935.

LIABILITIES			ASSETS		
	Rs.	Rs.		Rs.	Rs.
Notes held in the Banking Department ...	19,05,29,000		A. Gold Coin and Bullion—		
Notes in circulation ...	1,66,99,97,000		(a) Held in India ...	41,55,19,000	
Total Notes issued ...		1,86,05,26,000	(b) Held outside India ...	2,86,98,000	
			Sterling Securities ...	48,62,95,000	
			Total of A ...		93,05,12,000
			B. Rupee Coin ...		49,94,95,000
			Government of India		
			Rupee Securities ...		43,05,19,000
			Internal Bills of Exchange		
			and other commercial		
			Paper ...		
Total Liabilities ...		1,86,05,26,000	Total Assets ...		1,86,05,26,000

Ratio of Total of A to Liabilities: 50.013 per cent.
Dated the 10th day of April, 1935.

OSBORNE A. SMITH,
Governor.

STATEMENT OF THE AFFAIRS OF THE RESERVE BANK OF INDIA

BANKING DEPARTMENT

As on the 5th April, 1935.

LIABILITIES			ASSETS		
		Rs.			Rs.
Capital Paid up ...		5,00,00,000	Notes ...		19,05,29,000
Reserve Fund ...		5,00,00,000	Rupee Coin ...		3,30,000
Deposits—			Subsidiary Coin ...		1,04,000
(a) Government ...		18,36,41,000	Bills Discounted—		
(b) Banks ...		7,82,07,000	(a) Internal ...		
(c) Others ...			(b) External ...		
Bills Payable ...		43,000	(c) Government of India Treasury Bills ...		
Other Liabilities ...		1,85,000	Balances held abroad* ...		11,94,95,000
			Loans and Advances to the Government ...		
			Other Loans and Advances ...		
			Investments ...		5,00,00,000
			Other Assets ...		16,18,000
Total ...		36,20,76,000	Total ...		36,20,76,000

NOTE 1. For the present, the figure shown under Banks' Deposits represents the balance deposited by the Imperial Bank of India.

2. The increase in the Government balance as compared with that shown in the statements previously published by the Imperial Bank is due to the fact that the balance now includes a credit on account of sterling assets of Government transferred to the Banking Department.

*Includes Cash and Short term Securities.

Dated the Tenth day of April, 1935.

OSBORNE A. SMITH,
Governor.

THOS. COOK & SON (BANKERS) LD.

(Incorporated in England)

Head Office:

BERKELEY STREET, LONDON, W. 1.

*Every Description of Banking and Exchange
Business Undertaken*

Current and Fixed Deposit Accounts opened
at interest.

Pay and Pensions collected.

Periodical remittances made.

Drafts and Telegraphic Transfers granted
on all principal centres of the World.

Travellers' Cheques and Letters of Credit
issued, available throughout the World.

Executorship and Trusteeships undertaken.

Local Offices:

BOMBAY, CALCUTTA, RANGOON,
DELHI, MADRAS, SIMLA, COLOMBO.

COMPTOIR NATIONAL D'ESCOMPTE DE PARIS

(French Bank)

(Incorporated in France)

Capital Paid-up - Fcs. 400,000,000

Reserves - - Fcs. 439,672,636

Head Office: 14, Rue Bergere, PARIS.
Branch in India: BOMBAY.

509 BRANCHES THROUGHOUT FRANCE,
AND IN EGYPT, AUSTRALIA AND FRENCH
COLONIES, ALSO LONDON, MANCHESTER,
LIVERPOOL, BRUSSELS.

All types of Banking and Exchange busi-
ness transacted.

Current and Fixed Deposit Accounts
received in RUPEES, STERLING, FRANCS
or DOLLARS.

The bank carries on business of all kinds
with all the chief cities of the world and
maintains a close net-work of correspondents.

Established in Bombay for 72 years.
Our long experience is always at the disposal
of our customers.

TERMS ON APPLICATION.

G. A. H. KORTS,
Manager.

Hongkong and Shanghai Banking Corporation.

31, DALHOUSIE SQUARE.

AUTHORISED CAPITAL	...	...	...	\$ 50,000,000
ISSUED AND FULLY PAID UP	...	...	...	\$ 20,000,000

RESERVE FUNDS:

STERLING	...	...	...	£ 6,500,000
SILVER	...	...	...	\$ 10,000,000
RESERVE LIABILITY OF PROPRIETORS	...	...	...	\$ 20,000,000

LONDON BANKERS: THE WESTMINSTER BANK LTD.
HEAD OFFICE: HONGKONG.

BRANCHES:

Amoy	Foochow	Kobe	Muar (Johore)	Singapore
Bangkok	Haiphong	Kowloon (Hongkong)	New York	Sourabaya
Batavia	Hamburg	Kuala Lumpur	Peiping	Sungel Patani
Bombay	Hankow	London	Penang	Tientsin
Calcutta	Harbin	Lyons	Rangoon	Tokyo
Canton	Hangkew (Shanghai)	Malacca	Saigon	Tsingtao
Chefoo	Ipoh	Manila	San-Francisco	Yloilo
Colombo	Johore	Moukden	Shanghai	Yokohama
Dairen				

CURRENT ACCOUNTS are opened AND FIXED DEPOSITS received and interest allowed on terms which may be ascertained on application.

The bank undertakes the custody of Securities and Collection of Dividends, Coupons and interest on behalf of constituents.

Credits granted on approved Securities and every description of Banking and Exchange Business transacted.

Drafts granted on London and the Chief Commercial places in Europe, India, Australasia, America, China, Japan and Africa.

G. A. TODRICK,
Manager.

EMPIRE CENTRAL BANKS

By SIR CECIL KISCH, K.C.I.E., C.B.

The creation of the Indian Reserve Bank provides a convenient occasion for considering the significance of the movement which has culminated in the last twelve months in the decisions to inaugurate Reserve Banks in those parts of the British Empire which hitherto lacked this financial organ.

The Reserve Bank of New Zealand opened its doors in August, 1934. The capital of the Reserve Bank of Canada has already been subscribed and the opening of the Reserve Bank of India completes this Imperial progress.

It is a somewhat arresting fact that it was not until the period of the depression that these measures have been taken; and yet it is notorious that this period, which has witnessed the suspension of the gold standard throughout the Empire and in a large part of the world, is one in which the full virtue of the Reserve Bank system has been obscured.

After the War, South Africa was the first of the British Dominions to recognise, in a practical manner, the advantage of placing credit and currency control in the hands of a single institution divorced from the activities of the commercial bank and protected against political interference. Australia, which country was, perhaps, more acutely hit than other parts of the Empire by the crisis, has given much thought to the problem of strengthening the position of the Commonwealth Bank and it is a matter of general knowledge that, despite the political difficulties which delayed rehabilitation in Australia, the greatest services in this regard were rendered by the Bank and its late Governor, Sir Robert Gibson.

No serious student of public finance would urge that a Reserve Bank, however soundly established, can by itself preserve a country from financial misfortunes. These may be precipitated by unwise governmental action such as administrative extravagances engendering lack of confidence and involving inflation. Grave troubles may also be caused—and this has been a feature of the recent crisis—by a breakdown of the normal processes of credit and exchange in the leading money markets with repercussions in what may be described as subsidiary money centres. It is impossible to deny the failures in the regulation of the financial and economic system during the post-War period. The economic and political disturbances caused by the War and the subsequent necessity for building up new relationships between national currencies created problems which were only capable of being satisfactorily surmounted if cardinal errors were avoided by all parties and if co-operative action in the monetary sphere was assured.

The first attempt to recreate an international monetary standard after the War broke down largely by reason of the fact that the various parts of the mechanism were not duly harmonised; but few would deny that the troubles would have been greater if there had not been available in each country a Central Bank empowered, with the support of the State, to take control and limit the range of currency fluctuation when the gold standard ceased to function.

Recognition of the services that a Central Bank can perform in times of monetary abnormality helps to explain the fact that, so far from checking their creation, the crisis has served to speed up the completion of the chain of Empire Central Banks. It is also necessary to have ready and in working order a sound monetary mechanism against the time when an international monetary standard is again established.

Though differences of detail are necessarily found in the constitution of the Reserve Banks in India, New Zealand and Canada, the same general conception is present in each case. The Banks have been set up on the basis of privately supplied capital and under the management of a Board of Directors who, in their daily administration, are protected against interference on the part of Government or Legislature. The choice of Governors and Deputy Governors is subject to official approval so that the State, as representing the public, may have assurance that the highest administrative offices are properly filled. The duties of the Bank and its powers are defined by Statute and particular attention has been devoted to obviating competition by the newly constituted Reserve Banks with the established commercial banks.

As India, in the course of the discussions which have extended over nearly ten years, has had abundant opportunity for familiarising itself with the principles on which the modern Central Bank is founded, there is no need to enlarge upon this aspect of the matter.

What are the results which it is hoped will be achieved from the completion of the chain of Empire Central Banks? If the facts had not been fully appreciated before, recent years have abundantly demonstrated the close connection that exists between monetary centres. Disturbances in one are quickly communicated to another. This was clearly shown when the troubles caused in Austria by the breakdown of the Credit Anstalt in 1929 had their reactions throughout the Continent, inducing a general waning of confidence, which, in 1931, led to the suspension of the gold standard in the United Kingdom.

If it is desired to limit the risk of serious monetary disorders arising in any particular country, it is important to equip that country with an authority responsible for the control of currency and credit, whose duty it is to maintain a stable monetary situation. This, if fully achieved, presupposes stabilised exchange rates, which unhappily are still out of the picture to-day so far as the world as a whole is concerned.

But the position is by no means so discouraging within the Imperial orbit. Here we have a large group of countries, including the United Kingdom, Australia, New Zealand, South Africa and India and various Crown Colonies, between which exchange is virtually stable.

Each Empire country, which is equipped with an independent Central Bank, has now an organ which will help to maintain this position strengthening the hands of Governments to order their financial affairs aright when times are difficult. The stage is thus prepared for an intimate financial co-operation based on an ordered money market.

The development of this financial co-operation requires that the ordered control in each country should be in the hands of institutions similar in kind and outlook. A Bank can co-operate with an external Bank in a sense in which a Bank cannot co-operate with an external Government; and Central Bank can co-operate with Central Bank more intimately than a Central Bank can co-operate with a commercial bank. Thus the conception of a Reserve Bank's utility, which begins in the home sphere, enlarges to a wider horizon.

Reserve Banks are not an end in themselves. Their object is to promote sound conditions of trade internally and internationally. This purpose is served by the growth of intimate relations between the heads of the Central Banks in different countries. It is

becoming increasingly recognised that Reserve Banks should employ one another as agents in their respective spheres; and, in this process, it naturally follows that the Banks keep one another informed of their domestic developments. In the case of the British Empire, the fact that the monetary policy of the Banks in Australia, New Zealand and India is based on the maintenance of the link with sterling, will provide, perhaps, the most important focus for co-operation.

In this way the chain of Empire Central Banks harmonises admirably with the line of trade development formulated at Ottawa and with the policy enunciated in the declaration of the representatives of the British Government after the World Economic Conference in 1933, which envisaged the pursuit of a common monetary policy. In this Declaration, stress was laid on the importance of a rise in the general level of wholesale prices and in the adoption in the monetary sphere of appropriate measures conducive to this end.

In this connection great responsibility attaches to the monetary authorities in the great creditor countries, especially the United Kingdom and the United States. While stability of exchange between Empire currencies on the basis of the pound sterling is an important ingredient in economic recovery, it must be recognised that the tone or tempo of the Empire money markets as a whole must be set by London, which, by virtue of its creditor position, exerts its influence in all other centres.

Assuming that a fair relationship in the field of prices is, in due course, established between creditor

and debtor countries, it will be for the Central Banks of the Empire to ensure, so far as is humanly possible, that the stability is not again disturbed; and, in this way, the nearest approach will have been made to the achievement of a unified Empire currency system consistent with the maintenance of independent control in each constituent of the system.

But this objective is not limited to the Empire. All the countries, the exchanges of which are linked more or less directly with sterling, have an interest in the future evolution of British monetary policy; and it is within the Empire and this group of countries that trade to-day moves with relative freedom. At present, the United States and the Continental countries, which form the gold "bloc", are standing apart; but the case of the United States, which has formally devalued its dollar, is now, in reality, more closely allied to the sterling area than to the Continental currencies which have retained their post-war parities with gold.

Events—and they may take a variety of forms—must one day bring all these currencies into harmony, so that the international monetary system may be re-established and the world may escape from the morass of trade restrictions with which it is now entangled. The Bank for International Settlements, which is the focus of Central Bank activity, stands ready to aid in this important task of reconstruction; and, when the time arrives, it will no doubt be found that the newly established Reserve Banks in the Empire can contribute their share towards its realisation.

THE Chartered Bank of India, Australia and China

(Incorporated in England by Royal Charter, 1853.)

CAPITAL	...	...	...	...	...	...	£3,000,000
RESERVE FUND	...	...	...	...	...	...	£3,000,000
RESERVE LIABILITY OF PROPRIETORS	...	...	...	...	...	...	£3,000,000

Head Office:

38, Bishopsgate, LONDON, E.C. 2.

Agencies and Branches:

Alor Star	Colombo	Karachi	Peiping (Peking)	Sourabaya
Amritsar	Delhi	Klang	Penang	Taiping
Bangkok	Haiphong	Kobe	Rangoon	Tientsin
Batavia	Hamburg	Kuala Lumpur	Saigon	Tongkah (Bhuket)
Bombay	Hankow	Kuching	Samarang	Tsingtao
Calcutta	Harbin	Madras	Seremban	Yokohama
Canton	Hongkong	Manila	Shanghai	Zamboanga
Cawnpore	Iloilo	Medan	Singapore	
Cebu	Ipoh	New York	Sitiawan	

CURRENT DEPOSIT ACCOUNTS opened and FIXED DEPOSITS received on terms which may be ascertained on application.

The Bank issues Letters of Credit and grants Drafts payable at the above Agencies and Branches and also by its Correspondents in the principal cities of the World: buys and receives for collection approved Bills of Exchange; undertakes the purchase and sale of East India Securities and Stocks and Shares on behalf of Constituents. It also undertakes for its Constituents the Safe Custody of their Securities and the collection of Interest or Dividends thereon as they become due.

The Bank is prepared to undertake Trusteeships and Executorships.

Calcutta Agency:

**CHARTERED BANK BUILDINGS,
1, CLIVE STREET.**

**D. R. KINLOCH,
Agent.**

THE RESERVE BANK AND MONETARY POLICY

THE BEARINGS OF THE RATIO

By PROFESSOR B. P. ADARKAR

"All is gold that glitters—especially now we are a Sovereign State. What's the good of a Sovereign State if you can't define a sovereign. We can make anything a precious metal, as men could in the morning of the world. They didn't choose gold because it was rare; your scientists can tell you twenty sorts of slime much rarer. They chose gold because it was bright—because it was a hard thing to find, but pretty when you have found it. You can't fight with golden swords or eat golden biscuits; you can only look at it—and you can look at it out here."

G. K. CHESTERTON in *Manalive*.

So now nearly one hundred years after the first proposal for the establishment of a Central Bank was made, it has become a reality! What an enormous amount of time, energy and money has been spent to this day on the exploration of means and avenues for the realisation of this, one of the greatest dreams of the banking community of India! At first the Presidency Banks, then the banking authorities in England and then finally the Imperial Bank itself—that half-way house between a full-fledged Central Bank and a Commercial Bank—all these at various times stood as lions in the path of the creation of this Reserve Bank. And even when, in 1927-28, Sir Basil Blackett came out with two successive proposals for its institution, what with the *sangfroid* and *insouciance* of the Swaraj party and what with the John Bull tenacity of the Simla-Whitehall authorities, who would not stand any "political influence" on the Bank, there was again a slip between the cup and the lip and the question had to be shelved and postponed *sine die*. In the Round Table Conferences the British delegates, under instructions from the City interests, again raised the question and proposed that the currency policy of the Federation should be safeguarded by the establishment, as early as may be possible, of a Reserve Bank, "free from political influence," and that this should be a condition precedent to the Federation itself. It was at the time felt that this was just another hurdle in the way of Federation; but these fears were apparently baseless, as the British interests were anxious that a permanent institution should be created for the management of currency and credit in India and that this should be kept rigorously confined in the strait-jacket of a constitution carefully planned, and, what is more, should be allowed to operate within a pre-conceived scheme of monetary policy, lest in the absence of such a well-guarded instrument, a popular Federal Legislature assume and wield financial powers to the detriment of British interests. Moreover, it was imperative, if the semblance of constitutionalism was to be maintained, and the Reserve Bank was to be constituted by an Act of the Indian Legislature, that advantage should be taken of the very favourable position of political manœuvre in which the Government of India was placed in an Assembly packed with nincompoops and intellectual imbeciles, who made it a point to walk into Government lobbies without the slightest pricking of conscience. The establishment of the Bank itself was to be subject to the satisfaction of certain requirements: "in particular, that the Indian budgetary position should be assured, that the existing short-term debt both in London and in India should be substantially reduced, that adequate reserves should have been accumulated and that India's export surplus should have been restored."

Now, this was a hard doctrine, indeed, for any country to satisfy, especially while it was in the throes of one of the worst depression that the world had ever known. Somehow, however, since this country went off gold along with Britain, the first two conditions were partially satisfied and the British authorities were prepared to overlook the other two, provided the basic condition of safeguarding the "financial stability" of the country was fulfilled by its unquestioning acceptance of a preconceived monetary policy and of a "special responsibility" designed to prevent the legislators from making amendments to the Bank Act.

Myth of "Political Interference".

From the very start, the mythus of "political influence" has been repeated in every document, utterance and declaration made by the British and Indian authorities. This has been the bug-bear raised every time political sentiment in this country has demanded an adequate representation on the Bank of the national economic interests. The *leit motif* for this has been provided by the now notorious resolution of the Genoa and Brussels World Economic Conferences to the effect that "Banks and especially banks of issue should be freed from political pressure and should be conducted solely on the lines of prudent finance." This platitude has been raised to the eminence of a *sanctum sanctorum* by those who would throw dust into our eyes and have it all their own way. And yet this so-called principle has never been properly analysed. Even Mr. Montagu Norman, the Governor of the Bank of England, to whom, perhaps, it would be difficult to find a more appropriate authority in this connection, remarks, in his Preface to Sir Cecil Kisch's *Central Banks*: "Indeed it seems evident that the limitations imposed on new or re-organised banks during the last few years arise more from the fear and mistrust of political influence than from the needs of Central Banking as such." It is now being increasingly realised that the bogey of "political interference" was a genuine one in those hectic post-War years, when excessive borrowing by Governments and commandeering of the printing press had caused tremendous inflations and serious monetary difficulties everywhere, but that the restriction proposed by the Genoa Resolution, useless in emergency, was altogether meaningless in normal times.

Change in Expert Opinion.

As a matter of fact, enlightened opinion in this matter is coming round to the view that it is highly essential that the monetary policy of any country, no less than its budgetary policy, should be the concern of a Government democratically responsible to the people, for both are equally capable of doing im-

THE BENARES BANK LIMITED

(ESTABLISHED 1904)

Head Office : BENARES

Branches at :—AGRA, BHAGALPUR, CALCUTTA, MUZAFFARPUR and SAHARANPUR.

Authorised Capital	...	Rs. 1,00,00,000
Issued and Subscribed	...	„ 20,00,000
Called and Paid-up	...	„ 11,25,000
Reserve Fund	...	„ 4,75,000

Agencies in all principal towns in India.

Fixed Deposits received for long or short periods on terms which may be had on application.

Current Accounts opened free of charge and interest at 1% per annum allowed according to rules.

Savings Bank :—Small sums received at 3% per annum. Copy of rules can be had on application.

Loans and Cash Credits granted on approved securities.

Government Paper and other securities purchased and sold, safe custody thereof undertaken, interest and dividends realised.

The Bank conducts every description of business with the principal cities in India.

Copy of Rules may be had on application at the Head Office or Branches.

Calcutta Office
31, Burtolla Street

MOHANLAL BULCHAND
General Manager

THE STATE-AIDED BANK OF TRAVANCORE, LTD.

Head Office :—ALLEPPEY.

Branches :—TRIVANDRUM, CHANGANACHERRY, COCHIN AND QUILON.

Sub-Offices :—ERNAKULAM, KOTTAYAM AND KAYAMKULAM.

(UNDER THE PATRONAGE OF AND LARGELY SUPPORTED BY
THE GOVERNMENT OF H. H. THE MAHARAJA OF TRAVANCORE)

Authorised Capital	...	...	Rs. 30,00,000
Issued and Subscribed Capital	...	...	Rs. 15,60,400
Called and Paid-up Capital	...	...	Rs. 7,83,255
Reserve and other funds	...	...	Rs. 2,59,000

Directors :

1. K. C. Pandalai, Esq. B. sc. (LOND.) Madras (Chairman).
2. C. Sankara Menon, Esq., B.A., B.L., Quilon.
3. K. N. Nilakantan Nair, Esq., Alleppey.
4. C. P. Thomas, Esq., B.A., Changanacherry.
5. Parayath E. Raman Menon, Esq., B.A., N. Parur.
6. R. Gopala Pillay, Esq., Mannar.
7. K. Ramakrishna Pillay, Esq., M.B., B.S., Trivandrum.
8. K. N. Kesavan Namboodripad, Esq., M.A., B.L., Trivandrum.
9. S. Veeriah Reddiar, Esq., Alleppey.
10. U. Padmanabha Kukkilla, Esq., M.A., B.L., Trivandrum (Government Director).

The Bank undertakes banking business of every description. Fixed Deposits are received at favourable rates and arrangements have been made at Madras, Bombay, Calcutta, Bangalore, Calicut, Tiruppur, Madras, Coimbatore, Palghat and Trichur, to receive and pay Deposits AT PAR.

For further particulars apply to

OFFICE OF THE CHAIRMAN,
COLLEGE BUILDINGS,
ESPLANADE, MADRAS.

C. KRISHNA MENON, M.A., A.I.B.,
Manager.

mense good or harm to the economic life of the people. Even such an eminent authority as Mr. Keynes has, on numerous occasions, supported proposals made by the British Labour Party to make the Bank of England thus answerable to the will of the people. It is, of course, necessary that the day-to-day operations of a Central Bank should be kept outside the pale of politics; but *broad questions of policy* can, and ought to be, undoubtedly, handled by a representative Government. Moreover, there are at least six possible meanings, that could be attached to the term "political interference" in the case of India: (1) political influence of the State as a whole—(this is only a philosophic issue); (2) that of the Executive or Party in power—(this must be the majority voice); (3) that of the Legislature as a whole—(no one can object to this); (4) that of British Parliament—(this may be intended but would be a downright injustice); (5) that of the British Government; and lastly (6) that of the City of London. What have the authors of the Reserve Bank Act done? In their anxiety to exclude the political influence of the Indian Congress and all right-minded nationalistic groups, they have opened the door to precisely the kind of influence, which it had been, presumably, the object of the Genoa resolution to prevent, and which is admittedly opposed to the economic interests of this country.

The Threat of the Unseen Hand.

Now that this Bank of issue, "free from political interference," and properly hedged in with tight regulations, is established, we might turn to the more practical and immediate issues of its future and the future of its monetary policy. In view of the past monetary history of this country and in view of the immense potentialities, which are on all sides available to the Bank to exploit, what should be the methodology of its operations and what should be the aim and content of its monetary policy? Although there may have been two opinions as to one or two of the appointments made to the higher executive posts in the Bank, the composition of the first Board of Directors has, it may be admitted, given general satisfaction. It is, however, important that the members of the Board should realise the importance of the high office which they have been fortunate enough to fill and that they should conduct themselves with a sense of responsibility and act solely in the interests of the nation. It is important that they should realise that a Central Bank is a great Trust constituted for the purpose of economic regularisation and for the realisation of the greatest good of the greatest number. It is not to be regarded as a vantage-ground for the realisation of sectional or personal ends or as a pasture for favourite hobby-horses. And above all, the authorities of the Bank will be placed over and over again in situations in which they will have to choose between humiliation and self-assertion. It has been the fate of Minister after Minister, holding the finance *portfolio* of the Government of India, to have to submit to a greater and more potent mandate than could be given either by his own conscience, or his Government, or the elected representatives of the people for whom he might be catering. The Unseen Hand of London's High Finance has time and again interfered and dictated the "correct" monetary policy to be followed. It is this Unseen Hand that will be the "Discretion" of the Governor-General in the granting or withholding of his consent to such changes in the Reserve Bank Act as may be proposed by private members with a view to altering the monetary policy of the Bank. It is the sacred duty of every member of the Board and of the Governor and Deputy-Governors to resist any patronising interference by this ubiquitous personality and assert the independence and the prestige of the Bank, because it is the considered opinion of all right-minded men in this country that this influence alone has done more

mischief and harm to the economic interests of their land than anything else one can think of.

Our Financial Integrity.

India has had to borrow in the past in foreign monetary centres; but this is no reason why she should have an inferiority complex. She has lived up to the best principles of financial rectitude in an age when such a virtue is being fast forgotten. The mere fact of her being a debtor country need not permanently place her at the mercy of the money-lender, who must be warned and kept in his proper place. There has been talk of repudiation of past obligations in certain quarters; but there is no reason to suppose that such policy will be either adopted or executed without full consciousness of its effects upon the credit and international relations of this country. India must, on penalty of financial ostracism, observe and respect past contracts, or at least such of them as are justifiable, and there is no doubt that the Bank will be a powerful engine for securing this end and for the maintenance of a correct perspective in international finance. Mistrust has characterised the shaping of the Bank; it is for the Bank to prove that it is capable of handling financial matters with responsibility and fearlessness. That will allay the fears of investors overseas and engender a feeling of respect among the bankers of the world.

Conflict of British and Indian Interests.

There are some things, however, in which it is impossible for India and the Reserve Bank to give satisfaction to the British traders and investors, *i.e.*, wherever there is an inherent conflict of interests, it is difficult in the very nature of the case to please everybody. Since this country went off the silver standard in 1893, there has been a perennial conflict between British and Indian trade interests as regards the currency and exchange policy of India. Since that date, again, excepting one or two brief intervals, we have had some form or other of the sterling exchange standard, appearing under different garbs such as Gold Exchange Standard or Gold Bullion Standard. But on all occasions, the one supreme pre-occupation of the arbiters of the rupee has been to secure a high and stable ratio with sterling, and the gold nexus has only been an incidental factor, for which the authorities have never shown any particular concern. British importers, British Officials and Government of India's budget-makers have dominated the monetary policy of this country. The budget-makers in their anxiety to manage the expenditure side of their balance-sheet have not minded the fall in revenue, which a deflationary currency must cause. They have not worried themselves if the *débouchés* of production have been contracted and the national income has suffered by their policy; and so long as their narrow ideal of budgetary stability has been achieved, they have cared a farthing for its other consequences. If sufficient revenue is not forthcoming, they have gone in for drastic retrenchment of services and inflicted immense misery upon those who, as a consequence, have had to join the ranks of the unemployed and the destitute. Are not they themselves observing all the principles of "sound finance," "cutting their coat according to their cloth," etc.? Their philosophy of government assimilates public finance with private finance and refuses to regard the ultimate well-being of the country as of any great significance to the immediate or ultimate success of the Government. Since 1927, the year in which the rupee was pegged at 1s. 6d., not only the Central budget but also the Provincial budgets have shown deficits (on the average) amounting to crores. The Railway budget has been in no better condition and the rot which set in during 1928-29 still continues. Even in cases, where small surpluses have appeared, they have done so as a result of hand-to-mouth budgetting and ruthless cutting down of services. Not all of this misery can be ascribed to

the world depression, that "Mesopotamia"-like blessed word, because the depression began late in 1929. It is, therefore, the British importers' and British officials' interests which have decided the course of monetary events here. The remittance requirements of these officials and of the Government have superseded currency considerations and have created monetary stringency or plethora out of all proportion to the needs of business. In order that British imports should be facilitated an extra "preference" has been given by means of an exchange ratio, which has been infallibly proved to be unnaturally high and which has inflicted a price-fall that is superimposed upon another disastrous price-fall already caused by the depression. The British producers, who are fully aware of the advantages which they are surreptitiously reaping from a high ratio, are too shrewd to give them away. Similar anxiety on their part was responsible for their support to the policy of raising the price of silver, so that they could capture the Chinese market through higher Chinese exchanges. These British interests, coupled with the City of London, will control the strings of monetary policy in India, unless the Reserve Bank authorities assert their independence and exercise what powers are still left with them with tenacity of purpose.

Sterling or Independent Standard?

To maintain the sterling nexus under whatever circumstances has been the one consistent aim of our monetary authorities and everything else has been secondary to this. This policy has led to the erection of a system of trade relations between India and the United Kingdom which is far from convenient or natural and which, consequently, has injured India's trade with other countries outside the Empire. In a large number of lines, our trade with the United Kingdom, instead of being complementary, has assumed a competitive character. Secondly, British interests have conflicted with Indian interests owing to the very fact of their contractual relations in which the two countries stand as debtor and creditor. It is unthinkable that in such circumstances the same monetary policy would be suitable for both the countries; and especially if the creditor country is to determine the monetary destinies of the other, there is bound to be a monopolistic hegemony of the former. In 1931, when England went off gold (and even to-day) the position of the gold standard was not very secure. It was, undoubtedly, a wise move of the Government of India that they left the moorings of gold and followed sterling, when the monetary "horizon" was not clear. Sterling, even to this day, stands for greater security than gold. Those, who maintain that Government were wrong and should have allowed the rupee to "find its own level," are not very clear as to what they mean. If the rupee had not followed sterling in 1931, and if the currency were kept constant, and the rupee were allowed to "find its own level," that level would have been far higher than 1s. 6d. sterling. Virtually, we would have been on the gold standard with a currency and credit structure and a price structure which had been tuned to the high pitch of a sterling standard based on deflationary gold a few months before. In such circumstances, we would not, perhaps, have lost gold and, on the contrary, might have even imported substantial quantities of it; but there would have set in such a disastrous deflation that our plight would have been as bad as that of the gold bloc to-day. An independent standard, however, implies management; and if the protagonists of a rupee finding its own level suggest this, they cannot allow it to find its own level both in terms of the exchanges and in terms of the price level, at the same time.

No Price-raising!

Thus, the other alternative to adherence to sterling was an independent rupee in 1931. This

alternative, however, was far from being a practical proposition in September, 1931. The monetary horizon, as the Preamble to the Reserve Bank of India Act states, was certainly not very clear then to make any experiments in this direction. But can it be supposed that the monetary horizon is still obscure? To-day we know where exactly we stand. Sterling policy has been till recently dominated by "sound finance;" and the Empire Monetary Agreement which paid lip-homage to the cause of raising price-levels has not been implemented by the sterling authorities or by the other countries which have tied themselves to the apron-strings of sterling. Instead, ever since sterling left gold, it has found itself in the Eternal Triangle of exchange indecision and has been paying courtship to two mistresses, viz., dollar and franc, with doubtful success. Instead of taking the lead in world's monetary affairs, it has abused its position as the head of the Sterling-Area by developing invertebrate tendencies.

No Benefits from the Sterling Link.

So far as the rupee is concerned, the advantages of going off gold and belonging to the sterling group of currencies are fast disappearing. In the first instance, most of India's competitors are off gold and, therefore, in a position to exploit their opportunities in Europe to an equal or, perhaps, a greater extent. Secondly, there have grown up higher and ever higher tariff walls round the gold standard countries; and, what is worse, there has emerged a system of exchange restrictions in those countries, which has destroyed what was left of our transitory advantage of exchange depreciation. Thirdly, certain countries, including Japan and Australia, have brought about greater depreciation in their exchanges than others and are, therefore, in a position to oust India from her external markets and (especially in the case of Japan) even to dump goods in her home market. Lastly, and most important of all, the leadership of sterling is not yielding those results of price-raising, which have been eagerly awaited and which have been so recklessly promised at various times by the British authorities. In a recent Memorandum written by Sir Henry Strakosch under the auspices of the *London Economist*, it was shown how the gold standard countries had failed to bring their prices into alignment with their costs. However, while adherence to gold has led to that result in those countries, how far is there any realignment of cost-levels and price-levels within the Sterling-Area itself? The price-level has been almost rigid in these countries owing to the lack of vision of sterling authorities and the incipient boom, which was apparent in the first two years or so of the non-gold régime, has been nipped in the bud, with the consequence that in the leading countries of the Sterling-Area, with one or two exceptions, the basic problems of unemployment and disequilibrium remain as intractable as ever. In India, these problems have assumed grave proportions. Unemployment, general business bankruptcy, the cumulative growth of agricultural indebtedness,—these and other problems are still staring us in the face and over all this reigns supreme the superficiality of a "balanced" Central budget and high international credit. It is not, however, apparent to our financial satraps at Simla that it is possible for a country to starve and stinge itself in order to fulfil international obligations and produce the unreality of a high international credit and that it is a different matter whether this high credit is an expression of genuine financial solvency.

Prices at Home and Abroad.

From the following table it will be clear that the root cause of this nation-wide distress is the enormous fall in prices in India which only compares in its depth and excessiveness with the price-falls in countries still adhering to gold. It will be noticed that the fall in India is greater than in any of the

Sterling-Area countries and very much greater than in Japan. Even within the four corners of the sterling standard by choosing a lower parity *vis-à-vis* sterling, Denmark, Sweden, Norway and Australia have brought about a substantial rise in wholesale prices and are reaping the fruits thereof in the form of better employment, balanced budgets, improved foreign balances and so on. In India, on the other hand, the choice of a high ratio made as early as

1925 (the year of *de facto* stabilisation) has inflicted a continuous deflation whose tide has not been stemmed by going off gold. The very fact that the price-fall has been greater in India than England or other sterling-standard countries proves conclusively that the ratio has been high. And if further proof were needed we might refer to the process of contraction and the constant one-way tendency of the exchanges to fall prior to 1931.

WHOLESALE PRICES (1918-100)

Years	U. K.	Canada	Australia	India	Denmark	Sweden	Norway	France	Germany	U.S.A.	Japan	Switzerland
1918	100	100	100	100	100	100	100	100	100	100	100	106
1929	186	149	165	141	150	140	149	627	187	186	166	141
1930	119	185	146	117	180	122	187	554	124	128	186	126
1931	104	112	181	96	114	111	182	502	111	104	115	109
1932	101	104	129	91	117	109	122	427	96	98	121	96
1933	101	105	120	87	126	107	122	898	98	94	185	91
1934	108	111	184	89	129	112	128	885	96	105	134	89

Statistics collated from the "Economist Monthly Supplements". (1935 shows a lull in most price levels.)

Double Dose of Deflation.

A study of the wholesale prices in foreign countries and in India on a comparative basis is very instructive, especially as the price-structure of India is mainly of the *primary* variety, so that the wholesale prices form a large element in her economy. The fact is as clear as daylight that there has been an induced fall in the Indian price-level as a result of adopting an unnaturally high ratio. It is now generally admitted that sterling returned to gold in 1925 at a parity which was 10 per cent. higher than could be justified by her price movements relatively to dollar prices. In 1927, India on her part adopted *de jure* a sterling ratio which was again disproportionately high. Thus India got a double dose of

deflation. Contrast with this the Australian price movements and exchange policy. Prior to 1931, Australia had already depreciated her pound by about 25 per cent. in terms of the pound sterling, so that when sterling went off gold, she got a double dose of inflation and exchange depreciation. The recent economic history of Australia is too well-known to need any elaboration here; and I do not repeat how that lucky nation has been able to balance its budgets, to reduce unemployment by thousands, to meet her foreign commitments without difficulty and to achieve prosperity—all, as if overnight: India's case is on a par with that of Australia; both countries have a primary structure of production; both are international debtors; both have had serious budge-

CANARA BANK LTD.

(ESTABLISHED 1906).

Commissariat Building, HORNBY ROAD, BOMBAY.

LOCAL OFFICE :

GOMUK BHAVAN, MANDVI, BOMBAY.

**WE specialise in
Accounts of Up-
Country Banks.**

Subscribed
Capital Rs. 6,00,000
Paid-up
Capital ,, 3,31,035
Reserves ,, 4,60,000
Deposits ,, 58,62,486

A NET-WORK OF 19 OFFICES AT :

Mangalore, Alleppey, Cochin, Ernaculam,
Calicut, Kasargode, Puttur, Karkala, Udipi,
Ganguli, Coondapoor, Bantwal, Bangalore,
Chikmagalur, Hubli, Davangere, etc.

All kinds of Banking Business Transacted.

**THE
COMILLA UNION BANK, LD.**

(Established 1922)

Head Office: COMILLA

Branches:

Calcutta, Chandpur, Chittagong,
Dacca, Gauhati, Narayanganj,
Nitaiganj, Buxirhat.

Offers Unique Facilities for transacting
business with important Trade Centres
of East Bengal and Assam.

Transacts all kinds of Banking business
including Discount, Collection of Foreign
and Domestic Bills.

Undertakes safe custody of valuables
at Moderate Rates.

CALCUTTA BRANCH :

10, CLIVE STREET

I. B. DUTT

Managing Director.

J. C. SEN

Agent.

tary, financial and labour problems to solve. We, too, could have chosen an exchange ratio more in keeping with our price-structure and reaped benefits therefrom. On the contrary, we have not only taken no steps to counteract the dire effects of the world depression and thus insulate our economy from external disturbances, but have put the country through a grinding deflation and refused to admit our mistakes!

Wanted—25 per cent. Rise in Prices.

It is clear, therefore, that the immediate aspect of monetary policy is to reduce the exchange ratio to a lower level which would yield a price-rise of at least 25 per cent. to begin with. Our price structure being predominantly wholesale and international, it is bound to respond quickly to changes in the exchange ratio—in fact, more quickly than in countries which possess an economy of a more advanced kind in which services and goods of internal connotation predominate. The Preamble to the Reserve Bank Act, moreover, admittedly proposed adherence to sterling at the then existing ratio only provisionally and until the monetary horizon had clarified. All the traditional opposition of British trading interests will be roused by a proposal for revaluation, no doubt, but if the Reserve Bank authorities also bring pressure upon the Governor-General it is more than likely that he might persuade his "discretion" to grant the sanction that is necessary for a revision of the Act for this. Even supposing adherence to sterling was necessary in the interests of Indo-British and Indo-Empire trade, it would be sheer cussedness to insist that it should be at such a demonstrably high ratio as 1s. 6d. As regards the permanent aspect of monetary policy, I believe, it is possible, nay, highly desirable that the rupee should be managed independently, i.e., that it should be attached neither to sterling nor to gold, but should be based on principles of internal stability, always

keeping an eye on the relation of internal prices with internal costs. Similarly the exchanges should be manipulated so as to make the international prices of India correspond to her internal costs more closely than has been the case for years past.

Finance Member and Financial Policy.

Sir James Grigg, our Finance Member, seems to have a holy dread for inflation of all kinds. Perhaps that is how he has been tutored before he left the shores of his country; perhaps he has been bred up in the traditional "sound finance" of London bankers and traders; perhaps he has received special instructions to oppose all demands for alteration of ratio and for reflation which might easily lead to a fall in exchange ratio and work adversely against the imports of British goods into this country. He has already made up his mind about the ratio and price-level within a few months of his arrival in India. He has declared, in no uncertain terms, his opposition to any changes in monetary policy saying that he "will have no part or lot in such a policy, which I am honestly convinced would be disastrous for India in general, and most of all, disastrous for the poor, especially the poorer cultivator." He has quoted monetary authority (Bernard Shaw!) that "You cannot make a country rich by calling a penny two pence." He pours ridicule upon all economists and economic science and then would like to monkey with economic theories and facts as if it was a mere plaything for a genius like him. And yet there is not only a great consensus of opinion among economists as to the necessity of raising prices, but it is also the accepted policy of the very Imperial authorities to whom Sir James has to look for economic guidance and direction. It is, indeed, the greatest misfortune of India that at a time, when she might expect the Government to formulate a monetary policy in consonance with her needs, a

THE BANK OF INDIA, LD.

Established 7th September, 1906.

CAPITAL SUBSCRIBED	...	Rs. 2,00,00,000
CAPITAL PAID UP	...	" 1,00,00,000
RESERVE FUND	...	" 1,02,50,000

HEAD OFFICE:—ORIENTAL BUILDINGS, BOMBAY

BRANCHES:—Bullion Exchange Branch (Shaikh Nemon Street, Bombay), Bandra (near Bombay), Malabar Hill (3/4, Hughes Road, Bombay), Ahmedabad, Ahmedabad (Station Branch), Calcutta, Calcutta (Bara Bazar), Poona, Poona City, Rajkot, Surat, Nagpur City.

LONDON AGENTS:

The Westminster Bank, Ltd.

DIRECTORS:

Mr. Ambalal Sarabhai (Ahmedabad), Chairman.
 Sir Chunilal V. Mehta, K.C.S.I., Vice Chairman (Bombay).
 Sir Joseph Kay, Kt.
 Mr. Andrew Geddis
 Mr. Paliram Mathradas.
 Sir Cowasjee Jehangir Baronet, K.C.S.I., O.B.E.
 Mr. Dinsha K. Daji.

Current Deposit Accounts.—Interest is allowed on daily balances from Rs. 500 to Rs. 1,00,000 @ 1% per annum. Interest on balances in excess of Rs. 1,00,000 allowed by special arrangement. No credit will be given in accounts for interest amounting to less than Rs. 5 per half year.

Fixed Deposits.—Deposits are received fixed for one year or for shorter periods at rates of interest which can be ascertained on application.

Savings Bank.—Accounts opened on favourable terms. Rules on application.

The Bank acts as Executor and Trustee under Wills and Settlements, and undertakes Trustee business generally.—Rules may be obtained on application.

General Banking Business transacted, rules for which can be obtained upon application.

A. G. GRAY, Manager.

THE JUPITER GENERAL INSURANCE CO., LTD.

(ESTD. 1919: INCORPORATED IN INDIA)

TRANSACTS ALL CLASSES
OF
INSURANCE

LIFE, FIRE, MARINE, MOTOR CARS,
LORRIES, ETC., ETC.

Calcutta Branch:

JUPITER HOUSE, POLLOCK STREET

Telephone: Cal. 1783

financial officer has been dumped upon her, who does not even understand, much less act upon, the elements of the monetary situation in the country.

Economics of Gold Exports.

The immediate cause of the controversy has been the exports of gold from India which have assumed exorbitant proportions recently. It is natural that people should be scared by exports to the tune of 60 crores of gold annually. But here I must say this, that the Government's gold policy is not so disastrous as it is made out to be by popular spokesmen, but that, on the contrary, the Government are acting advisedly in allowing free gold exports to take place, although the rest of their monetary policy is not at all satisfactory. Those who maintain that gold exports are disadvantageous, are, in my view, indulging in three fallacies, which must be laid bare for a proper appreciation of monetary aims. The first fallacy is that gold exports have been caused entirely by a high ratio; the second is that gold exports have enabled the authorities to maintain an otherwise untenable ratio; and the third is that the exports are detrimental to the ultimate economic interests of the country. Now in all arguments regarding the balance of payments it is always particularly risky to establish causal sequences and draw conclusions therefrom. People who assert that a high ratio has been causing the gold exports neglect some very obvious facts. In the first place, the ratio has been there, *de facto*, since 1925; and although it might have been partly responsible for contracting the channels of India's export trade, it is noteworthy that right up to our departure from gold, we were substantial importers of gold and that suddenly the tide turned in 1931-32 and gold to the extent of 60 crores annually began to be exported. Secondly, the normal theory of gold as filling the gap caused by a less favourable balance of merchandise trade failing to answer the needs of home charges, capital account and invisible balance, does not provide any answer for these enormous exports. The truth is simply that, owing to our departure from gold, the external price of gold rose out of all proportion relatively to its internal price and it became immensely profitable to send out gold. If this were not the case, both "distress" as well as commercial gold would have remained in India. It may be interesting, perhaps, to add that a reduction of the ratio would lead to even larger exports of gold, as gold is the most mobile commodity, although there is no reason why we should mind it.

There is, of course, much truth in the contention that India's merchandise balance has dwindled owing to an adverse monetary policy. But a greater cause has been the world depression which has reduced the foreign balance of most debtor and agricultural nations to insignificant figures and in cases made them decidedly adverse. It should be a matter of grave concern that India's merchandise balance should drop from 86 crores in 1928-29 to respectively 79, 62, 34 and 3 crores in the years following. It is said that this low balance was caused by the high ratio and that gold helped to fill in the gap. But a balance can be upset in two ways: by diminution of exports or increase or maintenance of imports of goods. I maintain that the gold exports themselves were responsible for the increased merchandise imports in 1932-33 and sustained imports in later years. The exporters of gold did not part with their gold for nothing; in so far as they were distress sellers they imported necessities and in so far as they were commercial sellers they imported

other forms of durable wealth like motor cars and machinery.

Gold Exports and Demagogy.

The exports of gold have been compared to the loot of Mahmud of Gazni and much political capital has been made by popular speakers in want of suitable war-cries out of them. The export of gold, however, is not a sign of India's growing poverty any more than imports of gold prior to 1931 were a sign of her growing prosperity. If we have reduced our foreign obligations, imported other forms of durable wealth, relieved distress in one of the worst depressions that the world has ever experienced with the help of a dead asset like gold, this is, indeed, a matter for congratulating ourselves on being so civilised. Again, for the dead asset we have obtained unexpectedly high prices which have enriched us internationally. It is sheer ignorance born of the *auri sacra fames* which makes us regret the gold exports. Those who hold that Government ought to have imposed duties on gold exports or prohibited them, are, indeed, begging the question of the desirability of such an action. Others who believe that this exported gold could have been bought up for the Reserve Bank to serve as its reserves have not realised the true function of gold reserves. The Government have, in my view, rightly invested the funds made available by the exports in interest-bearing securities. If at any time, any crank would have it all in gold, these sterling assets could be very easily converted into gold and at a price which would be more in consonance with normal conditions.

Reserve Bank's True Charge.

There is reason to believe that the export of gold is only a temporary tendency. When the internal and external prices of gold come into alignment, as they soon must, gold exports will diminish in the near future. It is a good thing that we are selling off gold when its international price is so high and its reputation is fast dwindling. The future of gold is dark, but if at all there is a general return to gold, we can rest assured that there is such a plethora of monetary gold (*Cf.* Keynes's views in the *Economic Journal*, September, 1934, p. 515), which is being still further aggravated by increased production of gold that the world price of gold will fall considerably, if all this gold is thrown out on the market. When that happens, this country will begin to import gold and reestablish its doubtful reputation as the "Eastern sink for the yellow metal." That must, at any rate, satisfy our gold fetishists.

It is not, therefore, a question of gold exports on which the Government need to be censured, but on their general monetary policy which is, undoubtedly, very unreasonable. The general monetary policy implies a conflict between British and Indian trade interests which is eternal in its character. The Reserve Bank has now to decide whether it will place the nation's interests in the first place or in the second place. It has, undoubtedly, to play a great part in this cleansing of the Augean stables of Indian monetary policy. The Reserve Bank again, through its ways-and-means relations, can and should bring pressure upon the Government to come round to its views and the views of a large majority of economic thinkers in the country. Is it too much to hope that the Bank will not bow to the dictates of Simla or Whitehall, but will give as well take counsel and establish itself as the premier financial institution not only in name but in fact?

THE UNITED INDIA LIFE ASSURANCE COMPANY, LIMITED.

(Established in 1906.)

Head Office: **MADRAS**

Trustee: **THE OFFICIAL TRUSTEE OF MADRAS**

Policies in force exceed	...	...	Rs. 287 Lakhs.
Annual Income exceeds	...	...	„ 18 Lakhs.
Total Assets exceed	...	...	„ 68 Lakhs.
Total Claims Paid exceed	...	...	„ 22 Lakhs.

Among the distinguishing features of the Company are:

Complete and absolute safety of Investments;

Prompt and equitable settlement of claims;

Economical management;

Moderate rates of premiums combined with attractive bonuses; and

Efficient, sympathetic and prompt service to Policyholders.

Complete information will be gladly furnished on application to the Head Office, Branch Offices, or the Representatives of the Company at the various places in our country.

Head Office:

“ UNITED INDIA ASSURANCE BUILDINGS,”
SEMBUDOSS STREET.
Post Box No. 381.
MADRAS.

Chief Office for Bengal, Behar, Orissa and Assam:

2, LYONS RANGE.
Post Box No. 2148.
CALCUTTA.

ALLAHABAD BANK LIMITED.

ESTABLISHED 1865

Affiliated to the P. & O. Banking Corporation Limited.

AUTHORISED and Subscribed Capital	...	...	...	Rs. 40,00,000
CAPITAL paid up	...	...	...	„ 85,50,000
RESERVE FUND	...	...	...	„ 44,50,000

Head Office:—**CALCUTTA.**

Branches and Sub-Agencies.

Agra	Bombay	Fyzabad	Lahore	Meerut	Naini Tal
Allahabad	Cawnpore	Gorakhpur	Lahore City Office	Moradabad	Patna
Allahabad City Office	Cawnpore City Office	Hapur	Lucknow	Mussoorie	Rai Bareilly
Anritsar	Chandausi	Hathras	Lucknow City Office	Muttra	Raipur
Bareilly	Dehra Dun	Jhansi	Aminabad Park (Lucknow)	Nagpur	Shahjahanpur
Benares	Delhi	Jubbulpore	Lyallpur	Nagpur City Office	Sitapur

Pay Offices.

Aligarh	Firozabad	Moradabad City
Auraiya	Ghaziabad	Muzaffarnagar
Etawah	Hardoi	Ujhani

London Bankers:

THE P. & O. BANKING CORPORATION LTD.

Correspondents in all the principal towns in India.

Banking business of every description transacted on terms which may be ascertained on application.

M. V. WILSON

General Manager.

CENTRAL BANKS AND THE ECONOMIC DEPRESSION

By Dr. PAUL EINZIG

During the years that preceded the crisis, Central Banks came into a remarkable degree of prominence. While, before the war, their task was confined to the routine work of maintaining the gold standard and providing for the normal monetary requirements of the country, after the war their scope became enlarged considerably. Monetary policy became a matter of first-rate importance, and those engaged in its management were bound to gain prominence in the public eye. The attitude of Central Banks had become a matter of lively controversy and their actions were followed with keen interest by classes who would never have thought of paying any attention to them before the war. To a very large extent, Central Banks began to overshadow Governments. The world gradually got into the habit of looking to them for the solution of financial problems, both national and international.

In particular in the international sphere Central Banks began to play a predominant role. They were largely responsible for the financial reconstruction of a number of countries; for the stabilisation of a number of currencies; for the management of the transfers created by the increase in international indebtedness, both political and commercial. Meetings between heads of Central Banks came to be regarded as events of first-rate significance which were expected to influence the world's destiny. More than one leading central banker acquired a reputation for statesmanship that cast a shadow upon practically all the politicians who followed each other in the Government of various countries since the war. The conception developed that attributed to Central Banks supreme power for good or evil.

How did the recently acquired prestige of Central Banks stand the test of the financial crisis and the economic depression that preceded it and succeeded it? The crisis destroyed many a reputation. Institutions and individuals had to come down from their pedestals on which public admiration had placed them before the crisis. It would have been, perhaps, too much to expect that the reputation and prestige of Central Banking, Central Banks and Central Bankers should escape the havoc unimpaired.

The prestige of Central Banking received the first blow during 1929 when all the efforts of the Federal Reserve Banks were unable to divert funds from Wall Street. The authority of the official monetary policy was openly defied by one of the leading commercial banks in New York, which, by supplying speculation with the funds it required, frustrated the efforts of the Federal Reserve Banks to break the boom. The boom did, in fact, break; but not at the time when the monetary authorities wanted to break it.

After the Wall Street slump, the leading Central Banks made desperate efforts to retain their control over the world's monetary affairs. Lack of genuine co-operation between them, however, paralysed their power and the world was drifting towards the greatest financial crisis of its history. Central Banks can hardly be blamed for having been unable to prevent the disaster of 1931. The disequilibrium that caused it was too fundamental to be offset by the devices of monetary policy, however skilfully conceived and adroitly executed. Notwithstanding this, the prestige of Central Banks was bound to suffer through the crisis which they were unable to prevent.

The public had to realise that, after all, the power of Central Banks was limited. Doubtless, politicians were largely to blame for the troubles that arose in Central Europe. Bankers could hardly have been expected to work miracles, given the fact of political

disagreements between the countries concerned which prevented any effective international collaboration. However it may be, the events of 1931 have killed the legend of the Central banker superman ruling the destinies of the universe. The public had to realise that central bankers like the rest of us were helpless in face of this storm which they were unable either to prevent or to control.

Doubtless, Central Banks did their utmost during the critical days of June and July 1931 to avert the calamity. They rushed to the rescue of Austria and it was not their fault that political circumstances resulted in a clash over the conditions of the support to be granted to her. Central Banks granted powerful support to the Reichsbank and it was not their fault if, in face of the landslide, the substantial amounts they granted proved to be inadequate. Nor was it their fault that owing to the disagreement of politicians who failed to come to terms during the London Conference, it was impossible to grant further support to Germany. Central bankers have been subject to criticism for having been unable to solve the problem of the Central European crisis at their Basle meeting in July 1931. But how could they have been expected to come to an agreement so long as their Governments disagreed with each other on every question of fundamental importance?

These considerations undoubtedly exonerate Central Banks from blame for the collapse of 1931. At the same time, these very same considerations draw attention to the limits of the power of Central Banks. In the light of the experience of 1931, it is evident that their capacity was over-rated before the crisis, that their immense prestige was largely undeserved and was bound to suffer when the real test came. Obviously, the world's affairs are still in the hands of politicians and not of bankers. The latter can only exert their influence within the limits imposed upon them by political considerations over which they have no control.

The collapse of the pound delivered another severe blow to the prestige of Central Banking. If the Central European crisis drew attention to the political limitations of Central Banks, the sterling crisis provided an example of their financial limitations. On this occasion, there was no political interference with the endeavours of Central Banks to save the pound. French and American monetary authorities placed resources of an unprecedented magnitude at the disposal of the Bank of England to support sterling. All the Central Banks abstained from withdrawing their balances from London so as not to aggravate the position. Notwithstanding this, the gold standard had to be suspended in September 1931, and sterling had to be allowed to depreciate. The adverse pressure was too strong to be resisted even by the combined efforts of Central Banks.

It is to the credit of the Central Banks that they kept their heads throughout the crisis. They did not yield to the temptation to resort to panic measures, such as the increase of the bank rate to a prohibitive level. Even though they were subject to adverse criticism on account of that on the part of orthodox economists, the majority of public opinion—at any rate that section of public opinion which takes an interest in these matters—was decidedly favourably impressed by the absence of panic measures. On the other hand, the wholesale repatriation of Central Bank balances from New York that followed the suspension of the gold standard in Great Britain created an unfavourable impression. While, in the light of events of 1933, the withdrawal of these balances now

appears to have been fully justified, there was no need to carry it out in a way which might easily have accelerated the collapse of the dollar.

In most countries, the strength of the position of Central Banks in relation to their Governments suffered through the crisis. This is only natural for, while, during comparatively normal periods, the Governments usually allow Central Banks a fair amount of freedom of action, during critical periods they prefer to reserve for themselves the right of determining the fundamental principles of monetary policy, leaving to Central Banks only the technical task of carrying out the decisions.

In Great Britain in particular, the influence of the Central Bank upon the monetary policy declined considerably. All the time, the Bank of England was in favour of a more orthodox policy than the one adopted by the Treasury, but was unable to have its way. The establishment of the Exchange Equalisation Account dealt a severe blow to the Bank's position in the sphere of monetary policy. The operations of the Exchange Equalisation Account played a more important part in the financial situation than anything the Bank itself could do or leave undone. What is more, the bank rate ceased to be effective as a result of the cheapness of money. The Bank of England was thus no longer in a position to influence either the money market or the exchanges on its own initiative. It had to confine its activities to acting as an agent for the Treasury.

To some extent, this subordination of the Bank to the Treasury was due to the effects of the Central European crisis upon the position of most merchant banks. As is well known, most of them committed themselves in Germany to such an extent that definite default on the part of that country would ruin them unless official support were forthcoming. Although, until now, there was no need for any support, the

possibility of the necessity arising was present all the time. As the amount involved would be somewhere between £20,000,000 and £30,000,000, evidently the only source from which such a large amount could be expected would be the Treasury. In the circumstances, the merchant bankers who control the Bank of England were not in a position to assert their independence towards the Treasury. Moreover, political pressure in favour of the nationalisation of the Bank of England has been increasing since 1931; nor is it confined to the Labour Party. Any rigid resistance to official intervention would have further strengthened this movement.

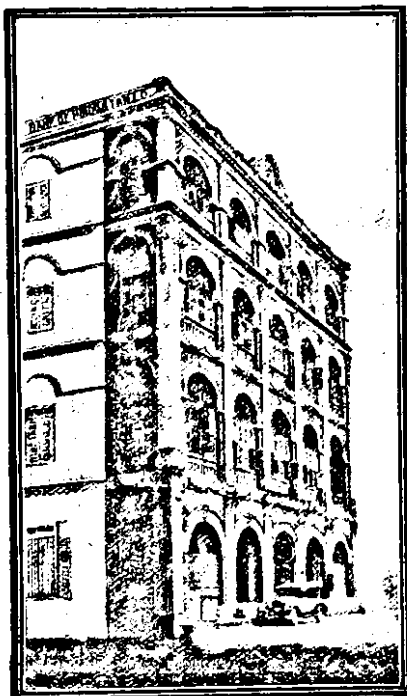
In the United States, after the advent of President Roosevelt, the influence of the Federal Reserve authorities practically ceased to exist. They no longer played any part in determining the monetary policy of the country and were only called in occasionally in a consultative capacity. Indeed, more often than not, they were not even informed in advance about the action the Administration had decided to take in money matters.

In France, the Central Bank succeeded in retaining a certain amount of influence on monetary policy. The repeated efforts of the Government to finance the budgetary deficit by inflationary means met with strong resistance on the part of the Bank of France which continued even after its ultra-orthodox Governor, M. Moret, was removed. Since, however, in France as in other countries of the Gold Bloc, the fundamental policy of the Government was highly orthodox, it was not difficult to establish agreement between Government and Central Bank.

Throughout the period of post-war reconstruction, the leading Central Banks endeavoured to secure a high degree of independence for the Central Banks of the financially weaker countries. In fact, it was one of the conditions of the support granted to the

BANK OF HINDUSTAN, LD.

(Members, Bankers' Clearing House)



Head Office: MADRAS. **Local Sub-Office:** TRIPPLICANE.

Branches: BEZWADA, CALICUT, COIMBATORE,
MADURA AND TIRUPPUR.

Sub-Office: POLLACHI AND TELLICHERRY.

PAID-UP CAPITAL—Rs. 10,00,000.

DEPOSITS :—Current, Savings and Fixed Deposits accepted at all Offices of the Bank.

LOANS **OVERDRAFTS AND CASH CREDITS** are granted by the Bank against approved securities.

PURCHASE **AND SALE OF GOVERNMENT SECURITIES**
AND STOCKS AND SHARES undertaken for Constituents.

ALL KINDS OF BANKING BUSINESS UNDERTAKEN.

Enquiries invited.

DIRECTORATE:

M. JAMAL MAHOMED SAHEB BAHADUR, Esq., President, Southern India, Skin and Hide Merchants' Association.

DEWAN BAHADUR M. BALASUNDARAM NAIDU, GARU, Merchant, Ex-Sheriff of Madras.

K. NAGESWARA RAO, Esq., M.L.A., Editor, "Andhra Patrika" and Proprietor, "Amrutanjan" Depot.

T. R. VENKATARAMA SASTRIAR, Esq., B.A., B.L., C.I.L., Advocate, Madras.

N. S. KRISHNAN, Esq., Merchant, Calicut.

PANDIT VIDYA SAGAR PANDYA, Banker and Auditor (Managing Director), Madras.

latter that the Central Bank should be made technically independent of the Government. With the advent of the crisis, however, these arrangements were swept aside in most countries. Governors were arbitrarily dismissed and replaced; Central Banks were made to grant advances to Treasuries; whenever necessary, their statutes were revised to suit the convenience of Governments. This was the case particularly in Germany, where the Governor of the Reichsbank, Dr. Luther, was removed in 1933; the Reichsbank was made to take over unemployment relief bills of the Government; and its statutes were revised so as to make it possible to include long-term securities in the note cover. In other countries, the Governments resorted to similar measures.

The tendency of Central Banks to become a State within the State suffered a complete reverse during the crisis. While before the crisis, in many countries, they influenced the Government rather than were influenced by the Government, since the crisis the Government has definitely gained the upper hand. The idea that Central Banks should pursue an independent monetary policy is becoming increasingly unpopular.

The persistence of the trade depression tends to reduce the influence of Central Banks also in the commercial community of their respective countries. Demand for credit is slack and the Central Banks' attitude towards the money market is no longer of any great importance. Indeed, in most countries, the business community ceased to take any interest in the bank returns and the bank rate.

It remains to be seen whether the eclipse of Central Banks is a passing phenomenon. The trend of evolution points definitely towards the concentration of power in the hands of the Governments, but it is possible that, with the return to normal conditions, Central Banks will once more be given a comparatively free hand to manage monetary policy. It depends upon the attitude of the Central Banks themselves. If they endeavour to restore the state of affairs that existed before 1931 without taking into account either the change in the situation or the change in public opinion, the movement in favour of subordinating them to Governments will gain ground. If, however, the Central Banks allow for the changed requirements they may stand a good chance that a great part of their influence and power will eventually be restored.

THE BANK OF MYSORE, LTD.

(Bankers to the Government of H. H. The Maharaja of Mysore)

Authorised Capital	...	Rs. 20,00,000
Subscribed and Paid-up	...	Rs. 20,00,000
Reserve Funds	...	Rs. 23,25,000

Head Office :
AVENUE ROAD, BANGALORE CITY

Branches:

Arsikere	Chickmagalur	C. and M. Station	Harihar	Mysore	Shimoga
Channapatna	Chintamani	(Bangalore)	Hassan	Oorgaum	Tiptur
Chickballapur	Chitaldroog	Davangere	Kolar	Sagar	Tumkur

London Agents:
THE EASTERN BANK, LTD.

Chairman of the Board of Directors :

Sir K. P. PUTTANNA CHETTY, Kt., C.I.E.

CURRENT ACCOUNTS opened and interest allowed at 1% per annum up to Rs. 10,000.

LOANS and CASH CREDITS are granted on approved securities.

FIXED DEPOSITS for Six and Twelve months received at rates which may be ascertained on application.

THRIFT DEPOSIT ACCOUNTS are opened and interest allowed at 8% per annum up to Rs. 2,500.

Banking Business of every description transacted on terms which may be ascertained on application.

P. W. O'BRIEN,
Manager.

THE RESERVE BANK OF INDIA

By Dr. P. S. LOKANATHAN.

In this contribution to the Reserve Bank Inauguration Number of *Indian Finance*, I do not propose to attempt either a comprehensive exposition of the theory of central banking or an exhaustive discussion of the issues connected with the Reserve Bank in India. The controversies that raged at the time of Sir Basil Blackett are mostly dead, either because the partisans have recognised their errors or because the issues are settled by concrete decisions of the authorities embodied in the Act. There can be little purpose in raking them up again. Now that the Reserve Bank of India is established and will soon start to function, the prime need is a general understanding of what it is about and how it can go about it. Only with such general understanding can we form a healthy public opinion which the utmost expertness in the management of the Bank cannot obviate. I shall, therefore, content myself with indicating the genesis of the Reserve Bank proposal and indicating the nature, significance and method of its main functions.

The first concrete proposal for the establishment of a Central Bank for India was made by Mr. Keynes who drew up, at the instance of the Chamberlain Commission, a memorandum on the subject. The reason which impelled him to recommend the establishment of a Central Bank, are as valid in 1935 as when he wrote his memorandum. For, in the first place, Mr. Keynes was much impressed by the magnitude and far-reaching nature of the Government's currency and exchange operations in India; secondly, he felt that the administration of currency by departmental officers, who could not have any intimate or direct knowledge of money market, must be replaced by administration by specialists.

Although the Imperial Bank was, at one time, regarded as being capable of functioning as a Central Bank, the importance of its commercial banking activities did not justify any radical change in its essential character.

Raison d'être of Central Banks.

Government's financial and exchange operations vitally affect the money market of the country, but there is no real contact between the two. Government withdraw funds in the form of taxes and Treasury Bills from the market, often when the market can ill afford to spare funds. But there is no machinery for ensuring even conditions throughout the year.

Although the volume of currency is the foundation of all credit, and the two must, therefore, be properly poised in relation to each other, there are conflicting policies resulting from the fact that, while Government control currency, credit is left to be controlled, if, at all, it can be, by the Imperial Bank. With divided control, there are divided counsels and failure to co-ordinate. As in America before the Federal Reserve system was adopted, so in India, the country is subject to seasonal monetary pressure which is even regarded as inevitable. Recent attempts to relieve this stringency have been only partially successful and only after the new Reserve Bank begins to function can there be any permanent solution.

Need for Concentrated Banking Reserves.

Each year also witnesses seasonal variations in money rates which arise out of the fluctuations in the cash reserves of banks which have no means of either increasing or diminishing them as and when required. The experience of the U. S. A. points to the conclusion that that sort of seasonal stringency of money is

an anachronism in any well-organised money market with a good Central Bank at the top.

The development of sound banking in India is not possible without a strong Central Bank which, by enabling commercial banks to turn to it with confidence in times of emergency and by readily converting into cash the assets of the commercial banks, will give security and confidence to every sound bank in the country. Banking crises to which India has been frequently subject have often been the result of the dissipation of banking reserves amongst a number of individual banks; and a central banking system with the concentration of such reserves ready to be utilised whenever necessary is obviously essential for a sound banking structure. Above all, stability of currency both internally and externally can be maintained only by a proper Central Bank.

Preference for Shareholder's Bank.

There can thus be no question of the necessity of a central banking institution of the Reserve Bank of India which is to be a shareholders' bank as in most countries. It is necessary that a Bank of Issue, such as the Reserve Bank is, must be free from political pressure and that its direction should be as unbiassed and continuous as possible. A useful warning of the dangers of political pressure is afforded by France in 1923-24 when, owing to the compulsion of the Finance Minister, the Bank of France issued notes far in excess of the legal limit and thereby aggravated the depreciation of the franc. I believe that it will be readily granted that Government must get its funds like all other bodies in the normal way. That the Reserve Bank of India is a shareholders' bank does not mean either that there would not be intimate contact with the Government or that the shareholders can do what they liked. The administration of the Reserve Bank is to be carried on in the interests of the country as a whole. Great care has been taken to ensure a wide distribution of shareholding by arranging that no one can get more than 5 shares of Rs. 100 each, before everyone who has applied for 5 shares gets his full quota.

Injustice to Madras.

While these arrangements are satisfactory, I must confess I do not follow the logic of assigning only Rs. 70 lakhs to the Madras register; for the acceptance of the principle of the widest distribution of shares directly leads to assignment on the population basis which means an assignment of at least a crore of rupees to Madras. If Madras does not absorb its full legitimate share of the bank capital, the portion left over might be transferred to other centres. But there is every reason to think that the number of applicants for the shares will far exceed the required number. The limitation of voting rights, the restriction of ownership of shares to Indians and the domiciled English, the limitation of dividends are all conceived on proper lines.

No Competition with Commercial Banks.

It is of the utmost importance that the Central Bank should be given proper powers to discharge its functions. In the Act the relation between the Reserve Bank and the commercial banks has been based on the principle that the Central Bank should control, but not compete with, the commercial banks. To ensure control, it has been laid down that all the member banks must keep a fixed percentage of their current and time deposits, 5 per cent and 2 per cent respectively

with the Reserve Bank. Although the smaller banks may feel this as a hardship, the importance of securing proper control of the credit structure of the country and the need for securing a concentration of reserves so as to enable the Reserve Bank to function as the Bankers' Bank *par excellence* justify the system of minimum compulsory deposits with the Reserve Bank. To prevent competition with the commercial banks, several provisions have been laid down, the most important of them being that the Reserve Bank can only take in deposits free of interest, that it cannot grant advances directly to the public and that it cannot purchase or discount paper unless it bears the signature of a member bank.

Open Market Operations.

But in exceptional circumstances, it is open to the Reserve Bank directly to enter the market with a view to enforcing its policy either of contraction or of expansion of currency and, therefore, powers of open market operations have been granted under the Act. Although the 'bank rate' is an indispensable instrument of credit control, there would arise circumstances when a mere change therein would be either undesirable or ineffective. 'Bank rate' is a delicate instrument of control, which, if not properly handled, would create complexities of grave consequence to the internal economy of the country. In the words of Governor Strong their effect is often dramatic and alarming to the country and the best means of preparing the market for a change in credit conditions would be by means of open market operations. A mere lowering of the 'bank rate' might not in certain circumstances, owing to the infrequency and looseness of contact, bring about a lowering of the market rates, unless the Central Bank by directly entering into the market puts in more money and brings about a lowering of the market rates also. Again, there might be occasions when, despite the increase in the bank rate, contraction of credit might not ensue owing to the independence of commercial banks which might have resources of their own. To reinforce the bank rate and to prepare the way for changes in the bank rate, open market operations are required. Indeed, for monetary expansion, open market operations would alone be quite sufficient, but when it is a question of contracts both instruments of credit control are required.

The normal working of the Reserve Bank would bring about an evenness in monetary conditions. The experience of the U. S. A. has proved that changes in acceptance holdings, which are largely seasonal, provide, without the strain involved in discount rates, the basis for meeting the seasonal demand for Federal Reserve credit. Similarly it might be hoped that in India the power given to the Reserve Bank to discount trade bills directly would be effectively used to relieve seasonal stringency and plethora of credit.

Strong Reserves.

The principles in which the note issue is to be regulated under the Reserve Bank Act call for some criticism. India has also adopted what is known as the proportional system of note-issue by which a percentage, in this case 40, of note-issue is to be held in the form of gold coin, bullion or sterling securities. It is now widely recognised that all such restrictions on the Central Bank really hamper its work and that the best arrangement would be to enforce an absolute minimum gold reserve sufficient to bridge over sudden

fluctuations in the balance of international indebtedness and to lay down an absolute maximum of note issue subject to modification from time to time. That does not imply that the country could have a very small amount of reserve; the significant thing is the power of the Central Bank to vary the volume as required. But practice always lags behind theory; and it is well to note that in India the Reserve Bank starts with exceptionally strong reserves of gold and sterling assets. As against a note circulation of about Rs. 182 crores, the Reserve Bank would have a reserve of gold of the value of Rs. 45 crores which at the present price of gold would be above Rs. 75 crores and of sterling securities of the value of Rs. 65 crores. Thus the reserve position is very strong. With such resources, it would be possible for the Reserve Bank to maintain the sterling standard. But the value at which the rupee must be kept in terms of sterling is not merely a question of reserves. It impinges on larger questions of economic policy into which I do not propose to enter.

Reserve Bank and Agricultural Credit.

I may turn to the proposal for creating an Agricultural Credit Department. The Reserve Bank Act has, by providing for the purchase and discount of agricultural paper of 9 month's maturity, recognised the importance of agricultural credit in India. Although there is nothing to prevent the co-operative banks from being included in the list of scheduled banks and taking full advantages of the membership, the authors of the Act did not desire to place on them the obligations of such membership all at once and have, therefore, left it to their discretion. Some co-operators proposed that the Reserve Bank should be empowered to make loans and advances to agriculturists on the security of movable goods, wares, merchandise as well as against warehouse receipts representing such goods. But this would render the Bank's resources less liquid and involve it in undesirable competition with commercial banks. The best way of increasing the usefulness of the Bank to the agriculturists is to link the large body of indigenous bankers with the organised banking system. Their operations represent the bulk of the financial transactions of the country; and the obligation imposed on the Reserve Bank to make a report in three years as to the methods by which indigenous bankers might be linked up with the modernised money market is, in this view, the most important proposal.

The establishment of a special Agricultural Credit Department has large potentialities; but the idea that the Reserve Bank can directly provide either short or long term finance to agriculture is erroneous. Neither on theoretical, nor on practical, grounds can a proposal of this kind be supported. The function of the Reserve Bank is to be the lender *in the last resort*, as Hawtrey has put it, and not to lend in the first instance, except in exceptional circumstances. In the absence of a network of branches all over the country, it could not, even if it would, undertake direct financing, undesirable as that course, undoubtedly, is. It could, of course, help in the establishment of a central co-operative organisation intended to provide long term credit and influence the growth, on sound lines, of machinery for provision of long term credit.

In all this the written laws governing the Reserve Bank are not so important as the spirit in which it functions; and the best results would be achieved only if its Directors were men of ability and sound practical experience.

SUPREME FOR YEARS SUPREME TO-DAY— QUALITY ALWAYS TELLS



Mysore Sandalwood Oil B.P. quality, the finest in the world, is perfectly blended and milled by a special process with the purest ingredients to make

Mysore Sandal Soap

"It's good through and through to the thinnest wafer"

Available Everywhere.

**GOVERNMENT SOAP FACTORY,
BANGALORE.**

QUALITY I.

So-called cheap silk fabrics do let you down at any time and cost you more in the long run because they are made down to a price and not up to a standard.

Mysore Government Silk Weaving Factory fabrics are recognised throughout India for their superior quality, reliability, durability and attractiveness and are guaranteed free from admixture with either artificial silk or foreign yarn.

The choice is in your hands

Buy Mysore Georgettes, Mysore Crepes and Satins and have full satisfaction.

(Agents for Bengal, Assam, Bihar and Orissa)

Messrs. MALLIKS,

No. 5, Dalhousie Square, Calcutta.

**GOVERNMENT SILK WEAVING FACTORY,
MYSORE.**



100%
GUARANTEED

They are durable,
Attractive &
Supreme Quality

**Govt Silk Weaving Factory
MYSORE**

MYSORE GOVERNMENT SANDALWOOD OIL

DISTILLED AT

THE GOVERNMENT SANDALWOOD OIL FACTORY,

MYSORE (S. INDIA.)

"Mysore Sandalwood Oil"

is recognised as the world's standard of quality.

When ordering insist upon original containers with the Mysore Government Seal and Label thereon.

Can be had either direct or through our Agents:

(For Bengal, Bihar and Orissa)

Messrs. MALLIKS,

No. 5, Dalhousie Square, Calcutta.

(For U.P., C.P., the Punjab, Rajputana)

Messrs. LALA BANARASI DAS KHETRY

AND

BENIRAM MOOLCHAND,

Perfumers, Kanauj.

(For South India, Bombay Presidency and Burma)

Messrs. M. A. T. ACHARYA & CO.,

Sri Krishna Buildings, Avenue Road, Bangalore City

AND

THE MYSORE PRODUCTS,

Princess Street, Bombay.

CHANGES IN CENTRAL BANK TECHNIQUE AND PRACTICE

By PAUL EINZIG

The tasks, with which Central Banks are confronted these days, are totally different from those they were faced with in the olden days. Before the war, the monetary system functioned largely automatically and it required a minimum amount of interference on the part of the monetary authorities. Disturbing tendencies usually carried their own corrective and the task of Central Banks was confined to assisting, to some slight degree, the process of automatic readjustment. The exchanges were, as a rule, allowed to take care of themselves since the functioning of the gold points kept their fluctuations within narrow limits without any artificial measures on the part of the authorities. In some countries, the Central Banks pursued a *devisenpolitik* consisting of taking up the excessive supply of foreign exchange during the export season and unloading it in the market during the adverse season. This intervention was, however, too mild in form and in extent to be regarded as a measure of exchange control. The only normal way in which Central Banks sought to influence the exchange was through the regulation of the bank rate. If they found that they were losing gold too persistently, they put up the bank rate and they reduced it again when the pressure was over. Some Central Banks resorted to artificial measures, such as paying a premium on gold or paying out silver instead of gold from time to time, but such measures were exceptional. As a rule, the activities of Central Banks consisted of routine work which did not require either imagination or initiative or even a thorough knowledge of general economic conditions and broad outlook.

Great Britain in particular was the classical land of the automatic monetary system and of passive Central Banking. The Bank of England managed the monetary affairs of London largely by abstaining from taking action rather than by taking action. Its Governor was elected as a matter of routine from among the twenty-six merchant bankers who were directors of the Bank, each one of whom took his turn as Deputy Governor and Governor. Whether or not he understood anything about monetary policy, for two years he became the supreme guardian of the world's principal currency. It is true, he was assisted by the permanent officials of the Bank, just as the inexperienced Cabinet Minister is assisted by the highly competent civil servants of his department. But, in the majority of cases, these permanent officials themselves were routine workers with a thorough knowledge of detail, but without any broad vision or the understanding of the fundamental principle of monetary policy and Central Banking. That, notwithstanding this, the monetary affairs of Great Britain were very well managed before the War shows how very little was required in those days on the part of those who were in charge of the official monetary policy.

Conditions have, however, fundamentally changed since the War and, more particularly, since the crisis. Without giving a review of the evolution of Central Banking during the past twenty years, let us confine ourselves to registering the changes in the requirements Central Banks have to satisfy. These requirements are:—

1. Broader vision.
2. More scientific management.
3. More active intervention.
4. More adaptable mentality.

It is no longer sufficient to run a Central Bank exclusively from the narrow point of view of the technical monetary situation. Those responsible for the management of Central Banks have to take into consideration general conditions outside the financial community. In fact, monetary considerations proper have to be subordinated sometimes to the interests of trade. The principle expressed by Mr. Montagu Norman in his evidence before the Macmillan Committee that, in endeavouring to maintain monetary stability, Central Banks serve the interest of industry in the best possible way is no longer accepted as an axiom of Central Banking.

While in the "good old days" it was considered sufficient for Central Banks to watch the figure of their gold reserves and act accordingly, the necessity for scientific methods did not appear to have arisen. Those responsible for the management of Central Banks did not consider it necessary to follow closely tendencies in every sphere of economic activity at home and abroad. Accordingly most Central Banks had no intelligence department and no statistical department. In the case of the Bank of England, the establishment of statistical service and general intelligence service dates from only a few years before the crisis.

If it was considered superfluous to acquire an adequate knowledge of current developments, there was all the more reason for considering the acquisition of fundamental knowledge unnecessary. Governors and permanent officials of the Bank were, in the past, almost without exception, practical men with little or no theoretical education. It was only recently that the Central Banks considered it necessary to appoint as economic advisers experts with a thorough theoretical knowledge. While the decision rested with the practical men, they, at any rate, had the opportunity of obtaining the theoretical point of view.

The need of more active intervention is by far the most important change in Central Banking practice that has taken place since the War. Before the War, the necessity for active intervention had arisen in times of crisis. As, however, this only occurred, on the average, once in seven or eight years, it was the exception and not the rule. Since the War, however, abnormal conditions necessitating active intervention have become the rule; and relatively calm conditions, when the activity of Central Banks is confined to routine work, have become the exception. Open market operations have been adopted by practically all the Central Banks as part of their routine. Thus, the Central Bank, instead of waiting for the market to approach it, often goes out of its way to influence the market by direct operations.

A much more revolutionary innovation is the active interest taken by the monetary authorities in the management of the exchanges. The idea that exchanges can be allowed to take care of themselves has been discarded completely since the crisis, and every country has established a more or less elaborate system of exchange control in which the Central Banks play an important part. Intervention in the foreign exchange market is carried out by the Central Banks even though, in many cases, they operate as mere agents for the Treasuries. Where exchange restrictions are in operation, they are handled mostly by the Central Banks. As a result of the active interest taken in the foreign exchange market, the Bank of England and other Central Banks, which in the olden

days did not possess a foreign exchange department, had to establish one.

Central Banks have begun also to take a more active part in gold arbitrage. In pre-War days, it was carried out almost exclusively by private arbitrageurs; but during the last few years, it has become the practice of most Central Banks to import, export, earmark or unearmark gold on their own initiative. In fact, in some countries, the international gold transactions are carried out exclusively on the initiative of the monetary authorities. In Italy, for instance, no private gold arbitrage is allowed. In Belgium and Switzerland, arbitrageurs are at liberty to sell gold to the Central Bank, but they cannot withdraw the gold. Such export of gold as is necessary for maintaining the stability of the currency is carried out by the Central Banks themselves. Central Banks are also buyers of gold in the open market in London. When, during the year before the crisis, it was announced that gold was acquired by an "unknown buyer," in most cases the buyer was one of the foreign Central Banks. Since the suspension of the gold standard, the Bank of England and the Federal Reserve Bank of New York have also been withdrawing gold, from time to time, from the Bank of France, but only on account of their respective Treasuries acting as agents of their respective Exchange Equalisation Funds.

In countries where exchange restrictions exist and importers have to apply for permits in order to be able to pay for the goods purchased abroad, Central Banks have assumed the role of controllers of imports. The Reichsbank and the Bank of Italy, for instance, have to decide whether or not exchange should be allotted for the import of certain kinds of goods, though, in performing this function, they have to follow the rules laid down by their Governments. In countries with exchange restrictions, the clerical work attached to Central Banking has increased immensely,

especially if the Central Banks are in charge of the exchange clearing accounts.

Among the new requirements of Central Banking, the possession of an adaptable mentality on the part of the Board and the Executive of Central Banks is highly essential. The situation has changed considerably since before the War, and, what is worse, it keeps on changing frequently and at times unexpectedly. Central Bankers are confronted, from time to time, with rapid changes and have to cope with unforeseen emergencies. In such circumstances, the Central Banker of the old type which suited the pre-War requirements would be unable to fulfil his function satisfactorily. It is no longer sufficient for the senior officials of a Central Bank to have picked up a thorough knowledge of technical details during lifelong experience. Indeed, in many ways, experience acquired in totally different conditions is a handicap, since it tends to induce the Central Bankers to view the present situation with pre-War or, at any rate, pre-crisis eyes. For this reason, the Bank of England and other Central Banks have, during the last few years, secured the services of young men, who, while possessing little or no banking experience, gave evidence of a sufficient degree of initiative and imagination to make up in this respect for the deficiencies of experienced senior officials.

The new technique of Central Banking is still in its initial stage of development. Nobody knows how much of the practice adopted recently under the pressure of emergency will remain in force and how much of the orthodox practice which ceased to operate will return after the depression is over. It may be taken for granted, however, that, in future, Central Banks will remain a much more active factor in the monetary system than they were in the past. Whether or not they come under the guidance of Treasuries, they will not confine themselves to supervising the automatic working of the system.



TRAVELERS CHEQUES TRAVEL SERVICE
HERE AND EVERYWHERE

THE
American Express
Co. Inc.

INTERNATIONAL BANKERS

WITH
WORLDWIDE REPRESENTATION

**CURRENT ACCOUNTS—FIXED
DEPOSITS—SAVINGS ACCOUNTS**

**ALL CLASSES OF FOREIGN
BANKING UNDERTAKEN**

CALCUTTA **BOMBAY**
14-15, Government Place E. 82-84, Esplanade Road
COLOMBO
Galle Face Hotel

**THE P. & O. BANKING
CORPORATION, LTD.**

(Incorporated in England)

With which is affiliated The Allahabad Bank, Ltd.

Authorised Capital	£5,000,000
Subscribed Capital	£2,594,160
Paid up Capital	£2,594,160
Reserve Fund	£180,000

Head Office :

122, LEADENHALL ST., LONDON, E.C.3

West End Branch :

14-16, COCKSPUR STREET, S.W.1.

Branches : Calcutta, Bombay, Madras, Colombo, Calcut
Shanghai, Singapore, Hongkong.

The P and O. Bank can transact business on behalf of its constituents at all centres where Branches of the Allahabad Bank, Ltd., are established.

Current Accounts opened and Fixed Deposits received on terms which may be ascertained on application.

Savings Bank Deposit Accounts opened and interest allowed at 2½ per cent. per annum.

Full particulars on application.

British Income-tax recovered. Executorship and Trusteeship undertake.

1, FAIRLIE PLACE, CALCUTTA.

W. S. RYDE, Manager.

THE B. I. S. AND ITS FUTURE

By Dr. PAUL EINZIG

When, in 1930, the Bank for International Settlements was established, those responsible for its creation attached sanguine hopes to its prospects. Their optimism was shared by the majority of expert opinion, while the general public, in so far as it has taken an interest in the innovation, regarded it as an important step in the right direction. It was widely believed by experts and laymen alike that the establishment of the Bank for International Settlements marked the opening of a new era in the sphere of international finance. While, in some banking quarters, fears were entertained that the new institution might become a dangerous rival to the existing banks, generally speaking, its establishment was hailed as a welcome event.

The object of the Bank for International Settlements was twofold. In the first place, it was to facilitate the payment of reparations by Germany on the basis of the Young Plan. In the second place, it was to act as a central organisation to facilitate the co-operation between Central Banks. There was close connection between these two functions. It was evident that co-operation between Central Banks was essential in order to secure the working of the Young Plan. It was less evident at the time, but it became obvious, in the light of subsequent events, that developments which led to a breakdown of reparations inevitably resulted in a setback in the movement of co-operation between Central Banks.

With our knowledge of to-day, we may consider it difficult to understand how financiers responsible for the Young Report and the statesmen responsible for the Hague Agreement of 1930 could possibly have been so optimistic as to expect that the mere existence of an International Bank could enable Germany to make the huge payments expected of her under the Young Plan. But those idealists who conceived the Bank were convinced that it would be able to raise world prices and to expand world trade to a sufficient degree to enable Germany to make the transfers which, in the then-existing conditions, were evidently far beyond her capacity to pay. These hopes were based on several assumptions which failed to materialise. First of all, it was assumed that the Central Banks participating in the Bank for International Settlements and the Governments behind them would co-operate whole-heartedly and without any after-thought in order to attain a common end. It was equally assumed that the Bank would have a fair chance to develop and that its early period of development would not be interrupted by a crisis of exceptional gravity. Lastly, it was assumed that those responsible for governing the destinies of the Bank would be inspired by the same ambition and enterprising spirit as inspired the originators of the scheme. Each one of these three assumptions proved to be unfounded.

The anticipation that the Bank for International Settlements would be managed in a spirit of genuine co-operation between the monetary authorities of the leading countries failed to materialise. Indeed, it required an unusual degree of optimism to expect that the mere establishment of that Bank would eliminate the fundamental disagreement on policy that existed among the nations. Had there been agreement that it was desirable to use the facilities provided by the Bank to bring about a considerable rise in world prices, the experience of the early period of the Bank

might have provided a fair test to indicate its possibilities. As it is, we are not entitled to conclude that the Bank is not suitable for achieving such an end. All we are entitled to say is that, in the absence of an agreement as to what end the Bank should pursue, it is useless as an instrument of international monetary policy in the hands of the monetary authorities.

But even if there had been genuine co-operation between the leading countries, it is doubtful whether the Bank could have produced spectacular results within the very short time of its existence prior to the outbreak of the financial crisis. Its early development was bound to be slow. Given the fact that the Bank was established in May 1930, and that, exactly twelve months later, the international banking crisis that shook the world to its foundations broke loose, it can hardly be said that the Bank had a fair chance to get over the initial stage of its development.

Last but by no means least, the Bank was handicapped, during the early period of its existence, by the highly conservative character of the institutions that controlled its destinies. The Central Banks represented on its Board of Directors were ultra-orthodox organisations, hostile to the idea of experimenting, of rapid expansion, and of taking any risk incompatible with the character of Central Banks. Month after month, suggestions were put forward at the Board Meetings at Basle to expand the Bank's sphere of activity. These proposals, however useful they have appeared to be, were rejected by the Board of Directors. "If in doubt, do nothing" is a time-honoured slogan, which was applied persistently throughout the five years' existence of the Bank. As it is less risky to say "no" than to say "yes", those in charge of the Bank preferred to be on the safe side by abstaining from what they considered bold innovations.

Nor did the hopes that the Bank would stimulate friendly collaboration between Central Banks materialise. The atmosphere at the monthly Board meetings was anything but cordial during 1930 and 1931; and, at times, these meetings witnessed violent clashes between the conflicting interests. Indeed, it was suggested that these meetings were, if anything, harmful to international co-operation, since they provided an opportunity for such clashes which might otherwise have been avoided no matter how much the Central Bank Governors disliked one another.

Within the limited means at its disposal, the Bank for International Settlements made an effort to avert the financial crisis. It granted substantial credits to the Central Banks of Germany, Austria, Hungary and Yugoslavia. It did not, however, possess the means required for intervention on a sufficiently large scale to prevent the crisis. Had the crisis taken place in, say, 1941 instead of 1931, it is conceivable that, in the meantime, the Bank would have accumulated funds running into millions; in which case it would have been in a better position to intervene effectively. At it was, the crisis simply immobilised the Bank's relatively moderate resources and rendered it incapable of granting any further assistance. Indeed, whatever liquid resources it possessed were withdrawn by the Central Banks which kept deposits with the Bank. Whenever a frozen loan was repaid, there was a corresponding withdrawal of deposits so that the amount

of liquid funds owned by the Bank was all the time negligible since May 1931.

It was evident that after 1931 the Bank was no longer able to make even an attempt to influence the course of events. Notwithstanding this, its attitude during the years of depression deserves criticism. The fact that it was unable to achieve results of fundamental importance did not justify its utter inactivity between 1931 and 1935. There were ample opportunities for rendering useful service and there was no lack of interesting suggestions. Indeed, the Executive of the Bank, anxious to earn its keep, was fertile in producing and putting forward new and interesting ideas. The Board of Directors invariably rejected them, however, or instituted prolonged and futile enquiries about them. Beyond the attempt to establish international postal clearing, there was nothing that could be quoted as being on the credit side of the Bank's balance sheet of activity since the beginning of the crisis.

Evidently, the Directors made no efforts to justify the existence of the Bank. Indeed, they appeared to be under the impression that the mere fact that monthly Board meetings provided an opportunity for them to meet, is in itself a sufficient justification for the existence of the institution. They failed to realise that the Bank's prolonged inactivity has undermined the initial authority it possessed. From time to time, they issued manifestoes from Basle laying down the law as to the monetary policy the Governments should pursue. Had the Bank been more active in helping the world to work out its salvation, the voice of its Board would have carried considerable weight. As it was, the Governments could hardly be blamed for ignoring the unsolicited advice they received from time to time from Basle. There was, in fact, only one piece of advice which the Directors of the Bank for International Settlements were anxious to give; and that was that every country should return to the gold standard as soon as possible. They did not take much trouble over trying to work out practical proposals as to how this end could best be achieved.

The result of the Bank's activities is thus decidedly disappointing, not because it was unable to prevent the crisis, but because it failed to make the effort to make itself useful during the period of depression. The world gradually lost interest in the institution which, in its present form, is barely more than a club for Central Bank Governors.

The question is: Will the Bank ever be able to develop into something more than it is at present? Most of its directors would answer that, once the world has returned to the gold standard, the future of the Bank is secured beyond doubt. They are not particularly concerned with the circumstances of stabilisation so long as it is done quickly. They would like the world to stabilise first and to think of the consequences afterwards. Fortunately, the Governments on whom the responsibility for the act of stabilisation would rest are not so keen to undertake, for a second time, a leap in the dark. Whatever the reasons for and against stabilisation, no country is likely to stabilise merely in order to enable the Bank for International Settlements to expand and consolidate its position.

Indeed, it would be a grave mistake, from the point of view of the prospects of the Bank itself, if the Governments were to return to the gold standard unconditionally. Having attained what they wanted, the Central Bank Governors would then continue their policy of avoiding to undertake anything in the way of reform and the Bank would remain in all probability what it is now. Its resources and activities might expand to some extent, but it would never be able to play a role of first-rate importance in the sphere of international finance.

In order to induce the Bank to take a more active part, the Governments will have to play on its intense desire for a return to the gold standard, by making stabilisation conditional upon certain reforms, the ex-

ecution of which is to be undertaken by the Bank. This is not the place to discuss in detail the exact form the future gold standard should assume, but it is certain that the Bank for International Settlements should play an important part in securing its normal functioning.

It is not the popular suggestion of an international gold reserve that I have in mind. The chances of this suggestion materialising are now probably much less favourable than they were before the crisis. Owing to the increase of economic nationalism and political tension on the Continent since 1931, it is unthinkable that any country would consider it desirable to keep the larger part of its gold reserve abroad. There is certainly no question of pooling the gold resources of various countries. It is unthinkable that France or even the United States would ever consent to such an arrangement. Barring that solution, the whole scheme of transferring gold reserves to the Bank for International Settlements would boil down to technical measures to substitute book entries for gold shipments. This idea has always been very popular in certain quarters on the ground that the shifting of gold from one centre to another is sheer waste. As, however, the amount of waste involved is negligible, it is hardly worth while to reorganise the international monetary system merely for the sake of saving a few hundred thousand pounds a year. Those who attach much importance to this scheme are inclined to mistake the shadow for the substance. What is required is not to reduce physical movements of gold, whenever they become necessary as a result of the working of financial tendencies, but to reduce these tendencies within normal limits.

In this respect, the Bank for International Settlements could play a very useful part, but only if it is not afraid of breaking new ground. It is by becoming a clearing house for international transfers that the Bank for International Settlements could play an

GRINDLAY & CO., LIMITED.

(Incorporated in England)

Estd. 1828.

Affiliated with

NATIONAL PROVINCIAL BANK LIMITED

CURRENT ACCOUNTS opened and interest allowed at 1 per cent. per annum from Rs. 1,000 to Rs. 1,00,000. Other terms by arrangement.

FIXED DEPOSITS are received for 6 and 12 months and for shorter periods at rates that may be ascertained on application.

SAVINGS BANK ACCOUNTS opened. Interest at 2½ per cent. per annum.

Rates and copies of rules may be obtained from all Branches on application.

INCOME-TAX recovered at all offices in India and in London.

The Bank undertakes TRUSTEESHIPS and EXECUTORSHIPS.

OFFICES IN INDIA:

BOMBAY	LAHORE
CALCUTTA	PESHAWAR CANT.
DELHI	PESHAWAR CITY.
NEW DELHI	QUETTA.
	SIMLA.

HEAD OFFICE:

54, PARLIAMENT STREET,
London, S. W. 1.

important part in reducing the disturbing influences which lead to unwanted gold movements. This suggestion has been made in various forms ever since the establishment of the Bank, but has been rejected on the ground that it would reduce the volume of foreign exchange business and would thus be detrimental to banking interests engaged in foreign exchange transactions. Undoubtedly, this is true. The question is whether or not it would be worth while to sacrifice the banking interests concerned for the sake of securing a higher degree of international monetary stability. I believe that, even from the point of view of the banking community, it would be worth while to forego some profit for the sake of stability.

The obvious function which the Bank for International Settlements should undertake is to become a central clearing house for international exchange clearing. As is well known, a large number of exchange clearing agreements have been concluded during the last three years and are operating independently of each other. It is thanks to these exchange clearing arrangements that countries, which have been particularly affected by the crisis, have been able to retain a reasonable part of their foreign trade. By enabling the countries of Central and South Eastern Europe to trade with each other and to some extent with stronger countries, the exchange clearing system probably saved them from utter financial and economic collapse. If the system was unable to produce wholly satisfactory results, it was because there was a complete lack of co-ordination between the various exchange clearing agreements which operated independently of each other. Although, in some cases, triangular exchange clearing arrangements were made, by which it was possible to use the surplus on one clearing account to offset the deficit on another clearing account, such arrangements were the exception and not the rule. What is wanted is a central organisation which would co-ordinate the

working of the various exchange clearing agreements and which would systematically offset surpluses on certain accounts against deficiencies on other accounts.

The Bank for International Settlements is eminently suitable for performing this function. It is, therefore, unfortunate that the Board of that Bank chose to adopt a hostile attitude towards the system. Not only is the Bank unwilling to lend a helping hand in its development, but it is doing its utmost to handicap progress. The Central Bank Governors represented on its Board have pledged themselves to a policy of obstructing the development of exchange clearing. This attitude is deplorable, not only from the point of view of general interest, which would be best served by the rapid development of the system of exchange clearing, but also from the point of view of the Central Banks and the Bank for International Settlements itself.

The exchange clearing system is, in my opinion, the rational system for international transfers; and its universal adoption is a mere question of time. If it does not take place on the occasion of the present depression, it will take place as a result of the next crisis. The resistance of Central Banks and of the Bank for International Settlements will be unable to prevent its development. The system will be adopted without them by other organisations, in which case both Central Banks and the Bank for International Settlements will lose a great deal of their influence. The international monetary system will slip out of their control entirely through their own fault.

The future of the Bank for International Settlements depends largely, if not exclusively, upon its attitude towards exchange clearing. If it continues to work against the system, some other international organisation will have to be formed and will be formed which would take charge of international clearing, and which would soon overshadow the moribund Bank of Basle.

BANKERS' BANK

Do you ever know that Banks deposit with other Banks?

It may interest you to learn that many Banks in India have money on deposit in

THE QUILON BANK

which means that conservative and experienced bank officers have scrutinised the Quilon Bank with a care and a knowledge which you and I could not be expected to possess and have passed judgment by depositing thousands of rupees.

When so many banks certify the Quilon Bank, it is a matter left to you to decide to call this Bank "My Bank."

THE QUILON BANK, LTD.

(INCORPORATED IN TRAVANCORE 1919)

BANK STATISTICS

IMPERIAL BANK OF INDIA.

(In Rupees—000's omitted)

LIABILITIES—	1982	1933	1934
Capital	5,62,50	5,62,50	5,62,50
Reserve	5,17,50	5,22,50	5,35,00
Public Deposits	7,06,95	6,44,11	6,72,20
Current, Fixed and other			
Deposits	68,86,85	74,12,77	74,27,95
Sundries	85,10	88,17	93,48
Total	Rs. 87,08,40	92,30,05	92,91,18
ASSETS—			
Cash	20,97,00	18,59,76	18,97,88
Balances with other banks	9,56	17,00	5,25
Investments	82,08,68	47,02,96	41,55,70
Bills Discounted and			
Purchased	1,96,67	2,08,08	2,59,82
Loans and Advances	28,68,45	20,95,56	26,42,44
Dead Stock	2,61,10	2,58,95	2,45,90
Sundries	76,99	97,74	85,18
Total	Rs. 87,08,40	92,30,05	92,91,18
Percentage of total Capital and Reserve to total Deposits	14'8	18'5	18'5
Percentage of total Liquid Assets to total Deposits	78'0	84'2	78'0
PROFIT AND LOSS ITEMS—			
Brought Forward	14,05	25,46	26,86
Profits	97,98	75,12	85,28
Dividend Distribution	67,50	67,50	67,50
Allocation to funds	19,02	6,22	18,99
Carried Forward	25,46	26,86	30,65
Dividend Rate per cent	12	12	12

THE CHARTERED BANK OF INDIA,

AUSTRALIA & CHINA.

(In Sterling—000's omitted)

LIABILITIES—	1931	1932	1933
Capital	8,000	3,000	8,000
Reserve Fund	8,000	3,000	8,000
Notes in Circulation	1,965	1,898	1,857
Deposits	88,616	48,688	46,606
Bills Payable	8,890	2,984	3,786
Acceptances for Customers	680	989	608
Loans Payable	1,127	2,896	2,051
Profit and Loss Account	859	894	441
Other items	848	848	499
Total	£ 58,180	58,724	60,298
ASSETS—			
Cash	5,626	8,481	12,094
Investments	11,518	15,656	17,188
Bills	8,849	11,799	7,405
Loans and Bills Discounted	22,602	17,740	18,576
Shares in allied Bank	2,298	2,295	2,801
Property	1,881	1,876	1,528
Customers' liability for acceptances	680	989	608
Other items	781	488	568
Total	£ 58,180	58,724	60,298
Percentage of total capital and Reserves to Deposits	15'5	18'7	18'9
Percentage of Cash to Deposits	14'6	19'3	25'1
PROFIT AND LOSS ITEMS—			
Brought Forward	188	149	184
Net Profits	891	455	467
Dividend Distribution	420	420	420
Allocation to Funds ... ..	...	...	25
Carried Forward	149	184	206
Dividend Rate percent.	14	14	14

THE BANK OF TAIWAN LTD.

(In Yen—000's omitted)

LIABILITIES—	80th June 1933	31st Dec 1933	30th June 1934
Capital	18,125	18,125	18,125
Reserve Funds	2,014	2,354	2,704
Deposits	256,608	256,576	251,928
Notes in Circulation	48,240	48,994	47,954
Bills Payable	23,631	43,995	48,850
Bills Rediscounted	60,628	49,616	86,879
Acceptances and Guarantees for Customers	8,659	4,825	3,288
Due to correspondents	2,611	8,014	2,115
Profit and loss Account	641	655	715
Other items	46	89	89
TOTAL	Yen 406,208	422,698	402,092
ASSETS—			
Cash	14,918	16,488	19,216
Bullion	19,761	20,161	20,086
Investments	90,085	90,886	77,408
Loans, Bills Discounted, etc	281,829	228,880	210,572
Interest, Bills, Bills bought and Export advances	37,652	58,628	63,885
Customers liability for acceptances and Guarantees	8,659	4,825	3,288
Due from Correspondent	729	1,946	2,781
Properties etc	7,570	6,984	5,511
TOTAL	Yen 406,208	422,698	402,092

THE AMERICAN EXPRESS COMPANY INC.

(In Dollars—000's omitted)

LIABILITIES—	1931	1932	1933
Capital	6,000	6,000	6,000
Surplus and Undivided Profits	1,882	1,867	2,087
Reserves	1,458	1,719	1,996
Deposits	15,487	18,896	16,846
Cheques and Drafts not yet presented for Payment	1,779	1,480	2,073
Acceptances and Letters of Credit for Customers	1,472	1,141	891
Other Liabilities	1,895	1,677	4,728
Total	\$ 29,878	27,280	34,614
CAPITAL—			
Cash	16,459	5,808	14,888
Funds with Affiliated and Subsidiary Companies ... ..	...	10,187	6,108
Investments	1,706	1,086	2,168
Loans and Discounts	6,688	8,988	5,652
Property	1,129	2,546	2,958
Customers' Liability for acceptances and Letters of Credit	1,472	1,141	891
Other Assets	1,919	2,579	2,509
Total	\$ 29,878	27,280	34,614
Percentage of Total Capital and Reserves to Deposits	48'81	57'61	47'46
Percentage of Cash to Deposits	106'62	48'85	85'11

GRINDLAY & COMPANY, LIMITED.

(Incorporated in Great Britain)

Profit and loss Items	Half-year ended 30-6-33	Half-year ended 31-12-33	Half-year ended 31-6-34
Brought Forward	76	79	88
Net Profit	564	576	681
Dividend Distribution	197	197	197
Allocation to funds	340	350	400
Bonus	25	25	25
Carried Forward	79	88	92
Dividend Rate percent (p.a.)	8	8	8

LIABILITIES—	1932	1933	1934
Capital	£ 250	£ 250	£ 250
Reserve Fund	100	100	100
Current, Deposit and Other A/cs.	2,760	3,004	3,122
Liabilities for Acceptances, Endorsements, Engagements, etc.	122	154	158
Total	£ 3,232	3,508	3,625

ASSETS—

Cash, Notes, Balances and Cheques, money at call and short notice ...	898	874	858
Investments ...	1,577	1,928	1,851
Loans, Bills Discounted, etc.	1,081	1,088	1,209
Bank Premises ...	54	54	54
Liabilities for Acceptances, Endorsements, Engagements, etc. ...	122	154	158
Total £ ...	3,282	3,598	3,625

NATIONAL PROVINCIAL BANK LTD.

Analysis of Balance Sheets (in thousands of £'s)

LIABILITIES—	1982	1988	1984
Capital ...	£ 9,479	£ 9,479	£ 9,479
Reserve Fund ...	8,000	8,000	8,000
Current, Deposit and Other A/cs. ...	291,567	288,240	297,180
Acceptances ...	6,206	6,895	5,868
Due to Subsidiary Companies ...	256	158	289
Undivided Profits ...	775	857	878

ASSETS—

Cash, Notes, Balances and Cheques ...	89,884	48,001	48,801
Money at call and notice ...	17,690	18,168	20,667
Investments ...	64,182	78,214	92,428
Bills Discounted ...	58,928	48,167	89,571
Advances ...	122,282	111,817	118,898
Bank Premises ...	7,211	7,867	7,862
Acceptances ...	6,206	6,895	5,868

HONGKONG AND SHANGHAI BANKING CORPORATION.

(In Dollars—000' omitted)

LIABILITIES—	1931	1982	1988
Capital ...	20,000	20,000	20,000
Sterling Reserve ...	90,485	104,000	89,784
Silver Reserve ...	10,000	10,000	10,000
Notes in Circulation ...	129,235	187,449	146,595
Deposits ...	778,481	981,898	878,954
Bills Payable ...	15,074	15,659	18,728
Acceptances for Customers ...	1,091	2,485	2,860
Profit and Loss Account ...	10,600	12,619	11,598
Total \$...	1,049,916	1,288,850	1,168,454

ASSETS—

Cash and Bullion ...	214,407	888,472	884,561
Investments ...	244,228	289,981	229,570
Bills Discounted, Loans and Credits ...	482,286	489,256	838,818
Bills Receivable, Remittances and Drafts in transit ...	188,294	148,981	144,491
Customers' Liability for acceptances ...	1,091	2,485	2,860
Bank Premises ...	19,610	19,674	18,659

Total \$... 1,049,916 1,288,850 1,168,454

Percentage of Total Capital and Reserves to Deposits.	15'57	14'88	18'7
---	-------	-------	------

PROFIT AND LOSS ITEMS—

Brought Forward ...	8,429	8,422	8,489
Profits ...	16,649	16,894	15,207
Dividend Distribution ...	15,894	15,297	18,612
Allocation to Funds ...	500	1,500	1,500
Carried Forward ...	8,422	8,489	8,468
Dividend per Share ...	£ 6	£ 6	£ 6

THE NATIONAL BANK OF INDIA LTD.

(In Sterling—000s omitted)

LIABILITIES—	1981	1982	1988
Capital ...	2,000	2,000	2,000
Reserve Fund ...	2,200	2,200	2,900
Deposits (including provision for Bad and Doubtful Debts and Contingencies) ...	27,804	30,118	29,686
Bills Payable ...	758	746	761
Acceptances for Customers ...	198	298	388
Loans Payable against Securities ...	1,760	...	...
Profit and Loss Accounts ...	549	529	500
Total £ ...	35,264	35,886	35,480

ASSETS—

Cash and Bullion ...	8,819	4,591	4,678
Investments ...	12,957	18,821	15,374
Bills of Exchange (including Treasury Bills) ...	5,682	5,897	8,558
Loans and Discounts ...	12,018	10,609	10,806
Customers' Liability for acceptances ...	198	298	388
Property and Furniture ...	650	670	691
Total £ ...	35,264	35,886	35,480

Percentage of Total Capital and Reserves to Deposits ...	15'1	18'9	14'2
Percentage of Cash to Deposits ...	18'7	15'2	15'8

PROFIT AND LOSS ITEMS—

Brought Forward ...	279	279	249
Net Profits ...	470	450	451
Dividend Distribution ...	400	400	400
Allocation to Funds ...	70	80	50
Carried Forward ...	279	249	250
Dividend Rate per cent. ...	20	20	20

THE NATIONAL CITY BANK OF NEW YORK.

(In million dollars.)

LIABILITIES—	1982	1988	1984
Capital ...	124	127	127
Surplus ...	76	80	30
Undivided Profits ...	5	5	8
Reserves ...	87	8	10
Acceptances and Bills ...	74	74	66
Deposits ...	1,299	1,117	1,395
Other items ...	...	26	4

Total \$... 1,615 1,887 1,640

ASSETS—

Cash (on hand and with Bankers) ...	800	864	450
Loans, Discounts and Bankers' Acceptances ...	620	497	438
Customers' Liability account of acceptances ...	66	69	57
Investments—			
United States Government Bonds and Certificates ...	365	219	482
State & Municipal Bonds ...	58	66	64
Other Bonds & Securities ...	120	65	72
Stock in Federal Reserve Bank ...	7	7	7
Ownership of International Banking Corporation ...	8	8	8
Bank Premises ...	60	57	58
Other assets ...	16	25	9

Total \$... 1,615 1,887 1,640

THE EASTERN BANK LIMITED

(In sterling—000's omitted)

LIABILITIES—	1981	1982	1988
Capital ...	1,000	1,000	1,000
Reserve Fund ...	480	500	500
Deposits ...	5,606	6,007	5,605
Bills and Acceptances ...	1,246	1,305	1,227
Loans Payable against Bill and Securities ...	1,149	729	1,094
Profit and Loss Account ...	189	126	187
Other Liabilities ...	107	76	59

Total £ ... 9,727 9,748 9,622

ASSETS—

Cash ...	1,822	1,885	1,258
Investments ...	3,285	4,861	4,582
Bills Receivable ...	1,851	696	605
Customers' Liability for acceptances ...	886	1,025	979
Loans and Advances ...	2,624	1,988	1,805
Property ...	189	190	190
Other assets ...	70	158	208

Total £ ... 9,727 9,748 9,622

Percentage of Total Capital and Reserves to Deposits ...	26'4	25'0	26'8
Percentage of Cash to Deposits ...	28'6	22'2	22'4

PROFIT AND LOSS ACCOUNT—

Brought Forward ...	50	84	41
Net Profits ...	120	122	126
Dividend Distribution ...	60	60	60
Allocations to Funds ...	75	35	35
Carried Forward ...	84	41	52
Dividend Rate per cent ...	6	6	6

NETHERLANDS INDIA COMMERCIAL BANK

(In Guilders,—000's omitted)

LIABILITIES	1932	1933	1934
Capital	55,000	55,000	55,000
Debentures	267	...	...
Reserve Fund	24,190	25,691	26,608
Deposits	128,696	100,418	90,808
Acceptances and Bills Payable	18,546	10,587	9,880
Profit and Loss Account	262	89	86
Total	216,961	191,785	181,862

ASSETS	1932	1933	1934
Cash	18,081	88,182	26,208
Investments	25,700	29,570	30,274
Bankers Abroad	11,476	6,840	9,820
Treasury Bills	27,150	18,100	20,791
Bullion and Bills Receivable	45,884	40,125	27,801
Loans and Advances	78,543	64,542	63,457
Property	5,177	4,876	4,011
Total	216,961	191,785	181,862

Percentage of Total Capital and Reserves to Deposits	1932	1933	1934
...	64.0	80.4	90.5

THE MERCANTILE BANK OF INDIA LTD.

(In Sterling—000's omitted)

LIABILITIES—	1931	1932	1933
Capital	1,050	1,050	1,030
Reserve Fund	1,050	1,075	1,075
Notes in Circulation	175	162	104
Deposits (including Provision for Bad and Doubtful Debts)	11,220	13,085	12,248
Bills Payable	497	467	417
Loans Payable against Security	888	...	...
Acceptances for Customers	128	188	125
Profit and Loss Account	220	235	285
Other items ... ..	...	...	38
Total	£ 14,668	16,212	15,292

ASSETS—	1931	1932	1933
Cash and Bullion	1,458	2,142	1,958
Deposits against Note Issue	281	812	812
Investments	5,498	5,890	6,006
Bills Receivable	1,854	2,091	1,700
Bills Discounted	89	88	27
Loans and Advances	5,286	4,968	4,688
Banking Premises	874	869	859
Customers Liability for Acceptances	128	188	125
Other items	260	219	172
Total	£ 14,668	16,212	15,292

Percentage of Total Capital and Reserve to Deposits	1931	1932	1933
...	18.7	16.8	17.8
Percentage of Cash to Deposits	18.0	16.4	16.0

PROFIT AND LOSS ITEMS—

	1931	1932	1933
Brought Forward	167	168	172
Profits	152	180	162
Dividend Distribution	126	126	126
Allocation to Funds	25	50	85
Carried Forward	168	172	172
Dividend Rate percent.	12	12	12

THE P. & O. BANKING CORPORATION LTD.

(In Sterling—000's omitted)

LIABILITIES—	1931-32	1932-33	1933-34
Capital	2,594	2,594	2,594
Reserve Fund	180	180	180
Deposits (including Provision for Bad and Doubtful Debts, Contingency Reserve etc.)	6,898	7,072	6,488
Loans Payable against Security	4,078	8,089	5,166
Acceptances, Endowments, etc.	201	200	119
Bills Receivable for Collection	232	267	282
Profit and Loss Account	189	149	157
Other items	70	75	28
Total	£ 14,887	18,626	14,959

ASSETS—

	1932	1933	1934
Cash, Bullion and Money at Call and Short Notice	2,323	1,588	1,958
Bills Receivable	2,102	2,258	2,184
Investments	4,847	5,985	6,808
Loans and Advances	4,824	3,254	3,520
Property and Furniture	159	149	188
Liabilities of Customers for acceptances	301	300	119
Bills Receivable for Collection	282	267	282
Total	£ 14,887	18,626	14,959

PROFIT AND LOSS ACCOUNT—

	1932	1933	1934
Brought Forward	32	88	45
Net Profits	107	112	112
Dividend Distribution	101	105	105
Carried Forward	88	45	52
Dividend Rate per cent.	5	5	5

THE BANK OF MYSORE LTD.

(In Rupees—000's omitted)

LIABILITIES—	1932	1933	1934
Capital	20,00	20,00	20,00
Reserve Fund	17,50	18,75	22,25
Building Fund	2,25	2,25	...
Deposits	2,18,08	1,98,79	1,98,66
Staff Provident Fund	2,39	2,68	3,01
Unclaimed Dividends	26	17	15
Profit and Loss Account	8,85	8,25	8,85
Total	Rs. 2,68,78	2,40,84	2,42,42

ASSETS—	1932	1933	1934
Cash	27,84	28,22	26,69
Investments	97,22	65,68	68,50
Loans and Advances	5,61	5,81	5,80
Bills Discounted and Purchased	1,28,80	1,87,86	1,87,99
Properties	4,76	4,27	8,94
Total	Rs. 2,68,78	2,40,84	2,42,42

Percentage of Capital and Reserve to Total Deposits	1932	1933	1934
...	17.2	20.0	21.8
Percentage of Total Liquid Assets to Total Deposits	57.6	51.2	51.9
Percentage of Cash to Total Deposits	12.8	14.6	18.8

PROFIT AND LOSS ITEMS—

	1932	1933	1934
Brought Forward	80	51	85
Net Profits	4,25	4,44	4,90
Dividend Distribution	2,60	2,60	2,80
Allocation to Funds	1,25	1,75	1,50
Staff Bonus	19	20	20
Carried Forward	51	40	75
Dividend Rate per cent.	12	12	12
Bonus per Share	Re. 1	Re. 1	Rs. 2

ALLAHABAD BANK LTD.

(In Rupees—000's omitted)

LIABILITIES—	1931-32	1932-33	1933-34
Capital	35,50	35,50	35,50
Reserve Fund	44,50	44,50	44,50
Provident Fund	14,91	16,14	16,89
Fixed, Current and Savings Bank Deposits	9,94,46	10,81,59	10,25,14
Suspense	1,82	2,88	2,84
Sundry credits Established on account of Customers	4,78	96	1,60
Profit and Loss Account	5,99	7,14	7,21
Other items	18	12	11
Total	Rs. 11,02,10	11,88,78	11,83,88

ASSETS—	1931-32	1932-33	1933-34
Cash	1,26,82	1,28,44	1,88,81
Investments	5,86,28	5,87,22	4,90,72
Loans	79,42	71,47	67,86
Cash Credits and Overdrafts	2,64,36	3,25,79	3,65,18
Bills Discounted and Pronotes	40,71	27,58	19,88
Property, Stationery, etc.	49,20	51,78	50,71
Customers' Liability for Sundry Credits	4,79	96	1,69
Other items	57	59	18
Total	Rs. 11,02,10	11,88,78	11,83,88
Percentage of Capital and Reserve to Total Deposits	8.0	7.4	7.8
Percentage of Total Liquid Assets to Total Deposits	66.7	65.8	61.0

PROFIT AND LOSS ITEMS—				
Brought Forward	...	4,24	8,69	4,85
Profits	...	5,55	5,75	5,91
Allocation to Funds	...	1,50	...	1,25
Dividend Distribution	...	4,59	4,59	4,59
Carried Forward	...	8,69	4,85	4,92

THE BANK OF INDIA LTD.
(In Rupees—000's omitted.)

	1982	1988	1984
LIABILITIES—			
Capital	1,00,00	1,00,00	1,00,00
Reserve Funds	1,01,50	1,01,50	1,01,50
Deposits	15,07,65	14,49,82	14,65,19
Profit and Loss Account	9,75	10,68	14,97
Other item	2,91	1,41	6,29
Total	Rs. 17,21,81	16,68,41	16,87,95
ASSETS—			
Cash	2,27,28	2,44,78	1,66,46
Investments	8,58,05	8,26,02	7,26,10
Loans and Advances	6,91,77	5,79,78	7,85,16
Property etc.	9,76	12,83	10,28
Total	Rs. 17,21,81	16,68,41	16,87,95
Percentage of Total Capital and Reserves to Total Deposits	18'4	18'9	18'8
Percentage of Cash to Total Deposits	15'1	16'9	11'4
Percentage of Total Liquid assets to Total Deposits	71	78	61
PROFIT AND LOSS ITEMS—			
Brought Forward	8,89	8,41	4,82
Net Profits	12,86	18,52	17,65
Dividend Distribution	11,00	10,00	10,00
Allocation to Funds	...	1,00	4,00
Carried Forward	8,41	4,82	5,21
Dividend Rate per cent.	11	10	10

BANK OF HINDUSTAN LTD.
(In Rupees—000's omitted)

	1982	1988	1984
LIABILITIES—			
Capital	10,00	10,00	10,00
Reserve for Bad and Doubtful Debts	18	20	20
Deposits	28,04	25,41	30,45
Bills for Collection	74	58	58
Profit and Loss Account	82	46	62
Other items	26	88	52
Total	Rs. 89,40	87,08	42,87
ASSETS—			
Cash	12,77	7,15	12,00
Investments	6,04	5,64	2,98
Loans and Advances	18,68	22,64	25,54
Preliminary Expenses	25	20	15
Safes, Furniture and Fittings	88	88	88
Bills for Collection	74	58	58
Other items	78	49	84
Total	Rs. 89,40	87,08	42,87
Percentage of Cash to Deposits	45'5	28'1	39'4
PROFIT AND LOSS ITEMS—			
Brought Forward	8	22	9
Net Profits	29	41	53
Dividend Distribution	...	80	80
Allocations	10	5	26
Carried Forward	22	11	6
Dividend Rate per cent.	...	8	8

THE CENTRAL BANK OF INDIA LTD.
(In Rupees—000's omitted)

	1981	1982	1983
LIABILITIES—			
Capital	1,68,18	1,68,18	1,68,18
Reserve and other funds	72,78	74,57	76,75
Deposits	15,20,88	20,11,59	22,32,82
Bills Payable	8,09	8,06	8,84
Due to Bankers	2,77,51	2,68	1,71
Branch adjustments	6,86	11,17	7,50
Acceptances for Customers	64,67	55,95	61,65
Bills for collection	81,11	86,41	88,69
Profit & Loss Account	9,12	8,60	10,70
Other items	6,80	8,22	2,47
Total	Rs. 21,59,90	23,75,81	25,94,26

ASSETS—

Cash	1,70,88	2,45,15	4,01,80
Investments	11,20,55	18,11,45	12,96,81
Loans & Advances	6,58,55	6,07,80	6,75,71
Properties etc.	1,19,69	1,18,55	1,19,60
Customers' Liability for Acceptances	64,67	55,95	61,65
Bills Receivable	81,11	86,41	88,69
TOTAL	Rs. 21,59,90	23,75,81	25,94,26

PROFIT & LOSS ITEMS—

Brought Forward	5,00	4,08	8,56
Net Profits	17,61	14,32	14,69
Dividend Distribution	10,09	10,09	10,09
Allocation to funds	8,50	1,75	2,00
Carried Forward	4,08	8,56	5,66
Dividend Rate per cent	6	6	6

THE INDIAN BANK LTD.

(In Rupees—000's omitted)

	1982	1988	1984
LIABILITIES—			
Capital	12,79	12,79	12,79
Reserve and Contingent Funds	18,89	14,07	14,97
Deposits	1,99,21	2,26,47	2,20,02
Bills for Collection	2,87	4,17	8,74
Profit and Loss Account	1,58	8,26	4,02
Other items	2,08	1,81	2,68
Total	Rs. 2,82,42	2,62,57	2,58,22
ASSETS—			
Cash	47,48	44,85	88,86
Investments	1,04,01	1,04,89	75,20
Loans, Advances, Bills discounted and Purchased etc.	71,45	1,01,88	1,88,59
Properties	1,70	1,70	1,60
Bills for Collection	2,87	4,16	8,74
Other items	4,91	5,09	73
Total	Rs. 2,82,42	2,62,57	2,58,22
Total of Capital and Reserves to Total Deposits	18'4	11'9	12'6
Percentage of Cash to Total Deposits	28'8	19'8	17'4
PROFIT AND LOSS ITEMS—			
Brought Forward	28	82	57
Net Profits	1,98	8,71	4,27
Dividend Distribution	1,54	1,54	1,79
Allocation to Funds	80	1,48	1,58
Carried Forward	32	57	76
Dividend Rate per cent.	12	12	14

THE TRAVANCORE NATIONAL BANK LTD.

(In Rupees—000's omitted)

	1982	1988	1984
LIABILITIES—			
Capital	4,22	5,20	6,77
Reserved Funds	2,00	2,20	2,50
Deposits	86,70	58,88	79,00
Chitty Deposits	11,99	14,00	15,47
Bills for Collection	1,18	3,46	5,85
Due to Bankers	42	25	43
Profit and Loss Account	2	88	87
Other Items	1,65	2,25	4,94
Total	Rs. 58,18	86,02	1,15,88
ASSETS—			
Cash	5,87	8,88	14,80
Investments	4,80	10,46	12,49
Loans and Advances	27,79	41,28	57,14
Chitty advances	14,55	15,95	17,12
Properties etc.	1,90	2,47	8,88
Bills for Collection	1,18	8,46	5,85
Other Items	2,59	4,02	4,60
Total	Rs. 58,18	86,02	1,15,88
Percentage of Total Capital and Reserves to Deposits	16'9	12'7	11'7
Percentage of Cash to Deposits	16	14'4	18'7
PROFIT AND LOSS ITEMS—			
Brought Forward	8	2	10
Net Profit	65	70	81
Dividend Distribution	46	42	54
Allocation to funds	25	30	80
Carried Forward	2	10	7
Dividend Rate Per cent	10½	9	9

THE BANK OF BARODA, LTD.

(In Rupees—000's omitted)

LIABILITIES—	1982	1983	1984
Capital ...	80,00	80,00	80,00
Reserve Fund ...	20,00	20,75	21,50
Provident Fund ...	8,95	4,41	4,78
Deposits ...	7,82,76	5,89,22	6,28,68
Due to Branches ...	1,40	1,58	1,77
Profit and Loss Account ...	8,15	8,06	8,58
Other Items ...	21	20	24
Total Rs. ...	7,91,47	5,99,22	6,90,45

ASSETS—	1982	1983	1984
Cash ...	92,85	78,55	97,86
Investment ...	4,79,95	8,37,62	8,31,85
Loans and Advances ...	1,99,26	1,65,74	2,36,65
Due by Branches ...	99	46	1,68
Properties etc ...	18,92	21,85	22,41
Total Rs. ...	7,91,47	5,99,22	6,90,45

Percentage of Capital and Reserves to Total Deposits ...	6.8	9.4	8.2
Percentage of Total Liquid Assets to Total Deposits ...	78.1	76.8	68.8

PROFIT AND LOSS ITEMS—	1982	1983	1984
Brought Forward ...	59	60	56
Net Profits ...	4,06	3,96	4,47
Dividend Distribution ...	8,00	8,00	8,00
Allocation to funds ...	75	75	1,00
Bonus to staff ...	80	25	25
Carried Forward ...	60	56	78
Dividend Rate Per cent ...	10	10	10

THE PUNJAB & SIND BANK LTD

(In Rupees 000's Omitted)

LIABILITIES—	31-12-88	30-6-84	31-12-84
Capital ...	4,15	4,15	4,16
Reserves ...	15,89	16,22	16,07
Deposits ...	1,55,27	1,57,41	1,58,06
Bills for Collection ...	58	77	75
Profit and Loss Account ...	1,12	1,21	1,39
Other Items ...	1,06	1,06	1,51
Total Rs. ...	1,78,02	1,80,82	1,76,94

ASSETS—	31-12-88	30-6-84	31-12-84
Cash ...	21,27	22,10	19,68
Investments ...	1,00,77	1,00,77	98,24
Loans and Advances ...	51,27	52,88	58,81
Properties, etc ...	4,18	4,85	4,96
Bills for Collection ...	58	77	75
Total Rs. ...	1,78,02	1,80,82	1,76,94

Percentage of Total Capital and Reserves to Total Deposits ...	12.9	12.9	18.2
Percentage of Cash to Total Deposits ...	18.7	14.0	12.9
Percentage of Total Liquid Assets to Total Deposits ...	78.9	78.5	77.5

Profit and Loss Items—	1982	1983	1984
Brought Forward ...	26	26	26
Net Profits ...	1,59	1,95	2,09
Allocation to Reserve Funds ...	1,02	1,22	1,34
Dividend Distribution ...	58	58	58
Carried Forward ...	26	26	26
Dividend Rate per cent ...	15	15	15

THE PUNJAB CO-OPERATIVE BANK LTD.

(In Rupees 000's Omitted)

LIABILITIES—	31st Dec. 1983	30th June. 1984	31st Dec. 1984
Capital ...	8,01	8,01	8,05
Reserves ...	10,41	10,28	10,44
Deposits ...	1,28,62	1,25,80	1,18,82
Due to Bankers ...	52	...	4,02
Bills for Collection ...	1,83	2,01	1,96
Profit and Loss Account ...	47	81	88
Other Items ...	37	34	6,80
Total Rs. ...	1,45,18	1,46,70	1,50,47

Assets—

Cash ...	4,88	7,01	8,01
Drafts in hand ...	48	8	21
Investments ...	49,52	51,38	50,89
Loans, Advances, Promissory Notes, Bills discounted, etc ...	88,40	81,87	88,88
Bills lodged for Collection ...	1,88	2,01	1,96
Interest Realizable ...	64	61	62
Properties ...	5,05	4,90	4,80
Other Items ...	4	4	5
Total Rs. ...	1,45,18	1,46,70	1,50,47

Percentage of Total Capital and Reserves to Deposits ...	14.9	14.6	15.6
--	------	------	------

(In Rupees—000's Omitted)

PROFIT AND LOSS ITEMS—	Half year ended 31-12-88	Half year ended 30-6-84	Half year ended 31-12-84
Brought Forward ...	8	1	44
Net Profit ...	44	80	44
Dividend Distribution ...	86	86	86
Allocation to Funds ...	10	1	52
Carried Forward ...	1	44	...
Dividend Rate Per cent (P.a) ...	9	9	9

THE UNION BANK OF INDIA LTD.

(In Rupees—000's omitted)

LIABILITIES—	Year ending 31st Mar., 1982	Year ending 31st Mar., 1983	Year ending 31st Mar., 1984
Capital ...	89,95	89,95	89,95
Reserve Fund ...	7,00	7,00	7,00
Deposits ...	28,42	58,40	51,07
Bills for Collection ...	7	52	11
Profit and Loss Account ...	2,82	2,85	2,88
Other items ...	76	1,86	1,01
Total Rs. ...	79,02	1,10,08	1,01,97

ASSETS—

Cash ...	5,16	18,80	10,27
Investments ...	40,23	52,94	55,89
Loans and Advances ...	28,80	38,88	25,57
Bills Discounted ...	52	1,04	5,74
Bills Receivable ...	7	88	11
Premises ...	8,90	8,90	8,70
Other items ...	84	1,87	1,19
Total Rs. ...	79,02	1,10,08	1,01,97

Percentage of Capital and Reserves to Total Deposits ...	165	80	91.9
Percentage of Total Liquid Assets to Total Deposits ...	162	121	189.8

PROFIT AND LOSS ITEMS—

Brought Forward ...	65	57	56
Net Profits ...	2,17	2,28	2,27
Dividend Distribution ...	2,00	2,00	2,00
Carried Forward ...	57	56	54
Dividend Rate per cent ...	5	5	5

CANARA BANK LTD.

		As at December 31st, 1934	
		Rs.	
LIABILITIES—			
Capital	...	3,81,085	
Reserve and other Funds	...	4,44,647	
Deposits, Fixed, Current, Savings, etc.	...	58,62,486	
Bills for Collections	...	99,244	
Other Items	...	5,51,620	
Profit and Loss Accounts	...	60,267	
Total	...	78,49,299	
Assets—			
Cash	...	9,74,810	
Loans, Bills discounted, Pro-	...	..
missory notes, etc.	...	46,11,918	
Investments	...	11,57,860	
Premises, etc.	...	8,27,199	
Other Items	...	2,77,512	
Total	...	78,49,299	

LIABILITIES—

Cash	...	4,76,225	4,52,504	8,26,850
Investments	...	2,96,472	5,97,286	8,24,706
Loans, Bills Discounted, Overdrafts and Cash Credits, etc.	...	22,89,658	28,92,858	86,01,185
Furniture and Fittings	...	10,898	20,788	25,048
Other Items	...	1,44,906	1,70,876	5,98,156
Total	...	81,66,654	41,84,857	58,75,446

PROFIT AND LOSS ITEMS—

	1931	1932	1933
	Rs.	Rs.	Rs.
Interest, Discount, Com- mission and Exchange	1,18,848	1,21,687	1,54,788
Interest of Govt. Securities	5,871	11,795	19,080
Depositor's Interest	48,804	51,958	91,086
Depreciation	7,808	1,909	1,576
Net Profit	40,782	42,620	41,181

THOS. COOK & SON (BANKERS) LIMITED

		October 31, 1934	October 31, 1933
		£	£
LIABILITIES—			
Capital	...	125,000	125,000
Reserve Fund	...	125,000	125,000
Current Deposit and other Accounts	...	8,182,998	2,904,760
Other Items	...	69,594	...
Total	...	8,502,597	
Assets—			
		Oct. 31 1934	Oct. 31 1933
Cash	...	441,978	628,144
Remittances in Transit	...	184,154	129,651
Money at Call and Short Notice	...	160,000	185,000
Bank Deposit at Interest	...	1,798,750	1,207,500
British Govt. Treasury Bills	...	Nil	50,000
India Govt. Treasury Bills	...	168,125	290,625
British and Indian Government Securities	...	506,610	441,047
Other Securities	...	44,849	58,252
Advances, etc.	...	160,402	148,075
Other Items	...	92,724	...
Total	...	8,502,587	

COMPTOIR NATIONAL D'ESCOMPTE DE PARIS

(In Francs—000's omitted)

		1931	1932	1933
LIABILITIES—				
Capital	...	400,000	400,000	400,000
Reserve	...	438,688	485,952	487,845
Deposits	...	9,416,191	9,055,429	7,884,497
Acceptances as per contra	...	114,875	69,901	47,412
Bonds falling due on fixed dates	...	89,756	47,981	85,766
Profit and Loss Account	...	44,188	86,405	86,562
Other Items	...	79,011	76,789	71,608
Total	Fcs.	10,577,704	10,122,407	8,868,690
ASSETS—				
Cash	...	8,372,240	1,587,722	1,482,127
Bills and National Defence Bonds	...	4,846,045	5,999,200	4,754,728
Advances	...	1,640,287	1,559,001	1,642,098
Investments	...	18,582	18,114	29,440
Correspondents	...	1,080,890	880,377	872,727
Acceptances as per contra	...	114,788	69,881	47,858
Property	...	15,000	15,000	15,000
Other Items	...	89,872	48,162	70,227
Total	Fcs.	10,577,704	10,122,407	8,868,690

BENGAL CENTRAL BANK, LTD.

		1933	1934
		Rs.	Rs.
LIABILITIES—			
Capital	...	8,26,180	8,81,697
Reserve Fund	...	1,55,000	2,00,649
Deposits (Including Current fixed, Savings Bank, etc.)	...	28,82,802	40,05,440
Profit and Loss Account	...	2,187	28,188
Other Items	...	92,145	15,418
TOTAL	...	84,57,814	45,76,837
Assets—			
Cash	...	5,89,220	5,61,177
Investments	...	4,77,776	6,11,206
Loans, Cash Credit Overdrafts, etc.	...	15,05,728	20,87,869
Property Account	...	8,88,512	8,67,880
Other Items	...	46,588	59,005
TOTAL	...	84,57,814	45,76,837
PROFIT AND LOSS ITEMS—			
Brought Forward	...	1,006	2,187
Interest, Commission, and Discount etc.	...	1,91,181	2,07,706
Interest to Deposits	...	1,21,081	1,11,575
Management Expenses	...	68,989	75,180
Carried Forward	...	2,187	28,188

THE STATE-AIDED BANK OF TRAVANCORE, LTD.

		1931	1932	1933
		Rs.	Rs.	Rs.
LIABILITIES—				
Capital	...	7,25,535	7,70,785	7,75,280
Travancore Govt. Deposits	...	5,00,000	4,50,000	4,25,000
Cash Credits A/c with the Govt. of Travancore	...	4,50,000	8,92,000	5,00,000
Reserve Fund	...	1,42,000	1,86,500	2,28,500
Deposits	...	11,06,171	20,82,664	24,74,026
Profit and Loss Account	...	97,508	92,825	91,165
Other Items	...	1,45,420	1,60,088	8,96,469
Total	...	81,66,654	41,84,857	58,75,440

THE COMILLA UNION BANK LD.

		18th Apl., 1933.	18th Apl., 1934.
		Rs.	Rs.
LIABILITIES—			
Capital	...	1,25,500	1,61,640
Reserves	...	2,00,000	2,20,000
Deposits including Fixed, Current, Savings, Provident, etc.	...	21,24,241	26,76,194
Profit and Loss A/c	...	15,489	17,809
Other Items	...	83,269	1,88,088
Total	...	25,48,449	82,18,221
ASSETS—			
Cash	...	89,192	2,23,878
Fixed Deposits with Banks	...	84,907	1,04,622
Investments	...	2,79,598	4,64,757
Loans	...	12,82,570	18,49,969
Cash credits and Demand advances	...	7,69,538	8,66,290
Bills discounted and purchased	...	85,587	52,148
Other Items	...	1,07,107	1,52,048
Total	...	25,48,449	82,18,221
As at the 18th March, 1935.			
Rs.			
Paid up share Capital	...	2,42,990	
Reserve Fund	...	2,57,550	
Total	...	5,00,540	

THE  TIMES
TRADE & ENGINEERING

A Complete Paper for the Business Man

THE primary purpose of TRADE AND ENGINEERING is to demonstrate the progress of British industry ; it devotes special attention to research, the development of new industries, and the changing conditions under which trade is now carried on. All this is, of course, of great importance to firms dealing with British houses.

The review is of particular interest to the reader abroad, notably for the following regular features :—

THE NEWS LETTERS

from trade correspondents in foreign countries keep the reader in touch with the development of financial and commercial conditions in other parts of the world. Full use is made of the unique services of *The Times*.

TRADE WITHIN THE BRITISH EMPIRE

is covered in dispatches from the main centres of the British Empire which are of importance to all merchants and exporters.

Much practical information concerning the

PROGRESS OF INDUSTRIES

is given by special correspondents in close touch with conditions in the principal manufacturing trades in Great Britain.

MARKET MOVEMENTS

are shown by brief reports and charts recording the average prices ruling for various commodities in the principal markets of Great Britain.

ENGINEERING AND SHIPBUILDING

contains reports of the work at the various shipyards and latest news from the "heavy trades" centres. The aircraft industry and the principal forms of transport are also dealt with.

FINANCE AND INDUSTRY

Banking Notes, Exchanges, and a summary of British Company reports form a most valuable record for reference purposes.

In addition to a number of articles upon new phases of trade and industry there is each month a special illustrated section in which the activities of particular industries or industrial areas are reviewed.

SUBSCRIPTION RATES

10s. or Rs. 6-12 per annum, post free.

Specimen copy on request

SUBSCRIPTION ORDER FORM

To the Secretary (Circulation),
 20, British Indian Street,
 Calcutta, INDIA.

Please supply TRADE AND ENGINEERING post free to the following address for one year. 1 enclose.

Name.....

Address.....

Date.....

THE RESERVE BANK OF INDIA ACT, 1934.

CONTENTS.

CHAPTER I.

PRELIMINARY.

SECTIONS.

1. Short title, extent and commencement.
2. Definitions.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

3. Establishment and incorporation of Reserve Bank.
4. Share capital, share registers and shareholders.
5. Increase and reduction of share capital.
6. Offices, branches and agencies.
7. Management.
8. Composition of the Central Board, and term of office of Directors.
9. Local Boards, their constitution and functions.
10. Disqualifications of Directors and members of Local Boards.
11. Removal from and vacation of office.
12. Casual vacancies and absences.
13. Meetings of the Central Board.
14. General meetings.
15. First constitution of the Central Board.
16. First constitution of Local Boards.
17. Business which the Bank may transact.
18. Power of direct discount.
19. Business which the Bank may not transact.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

SECTIONS.

20. Obligation of the Bank to transact Government business.
21. Bank to have the right to transact Government business in India.
22. Right to issue bank notes.
23. Issue Department.
24. Denominations of notes.
25. Form of bank notes.
26. Legal tender character of notes.
27. Re-issue of notes.
28. Recovery of notes lost, stolen, mutilated or imperfect.
29. Bank exempt from stamp duty on bank notes.

30. Powers of Governor General in Council to supersede Central Board.
31. Issue of demand bills and notes.
32. Penalty.
33. Assets of the Issue Department.
34. Liabilities of the Issue Department.
35. Initial assets and liabilities.
36. Method of dealing with fluctuations in rupee coin assets.
37. Suspension of assets requirements.
38. Obligations of Government and the Bank in respect of rupee coin.
39. Obligation to supply different forms of currency.
40. Obligation to sell sterling.
41. Obligation to buy sterling.
42. Cash reserves of scheduled banks to be kept with the Bank.
43. Publication of consolidated statement by the Bank.
44. Power to require returns from co-operative banks.
45. Agreement with the Imperial Bank.

CHAPTER IV.

GENERAL PROVISIONS.

SECTIONS.

46. Contribution by Governor General in Council to the Reserve Fund.
47. Allocation of surplus.
48. Exemption of Bank from income-tax and super-tax and provision for deduction at source of income-tax on dividends.
49. Publication of bank rate.
50. Auditors.
51. Appointment of special auditors by Government.
52. Powers and duties of auditors.
53. Returns.
54. Agricultural Credit Department.
55. Reports by the Bank.
56. Power to require declaration as to ownership of registered shares.
57. Liquidation of the Bank.
58. Power of the Central Board to make regulations.
59. Amendment of Act III of 1906.
60. Repeals.
61. Amendment of section 11, Act VII of 1913.

THE SCHEDULES.

ACT NO. II OF 1934.

[PASSED BY THE INDIAN LEGISLATURE]

Received the assent of the Governor General on the 6th March, 1934.

An Act to constitute a Reserve Bank of India.

WHEREAS it is expedient to constitute a Reserve Bank for India to regulate the issue of Bank notes and the keeping of reserves with a view to

securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage ;

AND WHEREAS in the present disorganisation of the monetary systems of the world it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system ;

BUT WHEREAS it is expedient to make temporary provision on the basis of the existing monetary

system, and to leave the question of the monetary standard best suited to India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures ;

It is hereby enacted as follows :—

CHAPTER I.

PRELIMINARY.

Short title, extent and commencement.

1. (1) This Act may be called the Reserve Bank of India Act, 1934.

(2) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(3) This section shall come into force at once, and the remaining provisions of this Act shall come into force on such date or dates as the Governor General in Council may, by notification in the Gazette of India, appoint.

Definitions.

2. In this Act, unless there is anything repugnant in the subject or context,—

(a) "the Bank" means the Reserve Bank of India constituted by this Act ;

(b) "the Central Board" means the Central Board of Directors of the Bank ;

(c) "provincial co-operative bank" means the principal society in a province which is registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies and the primary object of which is the financing of the other societies in the province which are or are deemed to be so registered :

Provided that in addition to such principal society in a province or where there is no such principal society in a province the Local Government may declare any central co-operative society in that province to be a provincial co-operative bank within the meaning of this definition ;

(d) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906 ; and

(e) "scheduled bank" means a bank included in the Second Schedule.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

Establishment and incorporation of Reserve Bank.

3. (1) A Bank to be called the Reserve Bank of India shall be constituted for the purposes of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

Share capital, share registers and shareholders.

4. (1) The original share capital of the Bank shall be five crores of rupees divided into shares of one hundred rupees each, which shall be fully paid up.

(2) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Delhi, Madras and Rangoon, and a separate issue of shares shall be made

in each of the areas served by those registers, as defined in the First Schedule, and shares shall be transferable from one register to another.

(3) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register ; and no person who is not—

(a) domiciled in India and either an Indian subject of His Majesty or a subject of a State in India, or

(b) a British subject ordinarily resident in India and domiciled in the United Kingdom or in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, or

VII of 1913.

II of 1912.

(c) a company registered under the Indian Companies Act, 1913, or a society registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies or a scheduled bann, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in of any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, and having a branch in British India,

shall be registered as a shareholder or be entitled to payment of any dividend on any share, and no person, who, having been duly registered as a shareholder, ceases to be qualified to be so registered, shall be able to exercise any of the rights of a shareholder otherwise than for the purpose of the sale of his shares.

(4) The Governor General in Council shall, by notification in the Gazette of India, specify the parts of His Majesty's Dominions which shall be deemed for the purposes of clauses (b) and (c) of sub-section (3) to be the parts of His Majesty's Dominions in which no discrimination against Indian subjects of His Majesty exists.

(5) The nominal value of the shares originally assigned to the various registers shall be as follows, namely :—

(a) to the Bombay register—one hundred and forty lakhs of rupees ;

(b) to the Calcutta register—one hundred and forty-five lakhs of rupees ;

(c) to the Delhi register—one hundred and fifteen lakhs of rupees ;

(d) to the Madras register—seventy lakhs of rupees ;

(e) to the Rangoon register—thirty lakhs of rupees :

Provided that if at the first allotment the total nominal value of the shares on the Delhi register for which applications are received is less than one hundred and fifteen lakhs of rupees, the Central Board shall, before proceeding to any allotment, transfer any shares not applied for up to a maximum nominal value of thirty-five lakhs of rupees from that register in two equal portions to the Bombay and the Calcutta register.

A Committee consisting of two elected members of the Assembly and one elected member of the Council of State to be elected by non-official members of the respective Houses shall be associated with the Central Board for the purpose of making public issue of shares and looking after the first allotment of shares.

(6) In allotting the shares assigned to a register, the Central Board shall, in the first instance, allot five shares to each qualified applicant who has

applied for five or more shares; and, if the number of such applicants is greater than one-fifth of the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

(7) If the number of such applicants is less than one-fifth of the number of shares assigned to the register, the Central Board shall allot the remaining shares firstly, up to the limit of one-half of such remaining shares, to those applicants who have applied for less than five shares, and thereafter as to the balance to the various applicants in such manner as it may deem fair and equitable, having regard to the desirability of distributing the shares and the voting rights attached to them as widely as possible.

(8) Notwithstanding anything contained in sub-sections (6) and (7), the Central Board shall reserve for and allot to Government shares of the nominal value of two lakhs and twenty thousand rupees to be held by Government for disposal at par to Directors seeking to obtain the minimum share qualification required under sub-section (2) of section 11.

(9) If, after all applications have been met in accordance with the provisions of sub-sections (6), (7) and (8), any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to and taken up by Government, and shall be sold by the Governor General in Council as soon as may be, at not less than par, to residents of the areas served by the register concerned.

(10) The Governor General in Council shall have no right to exercise any vote under this Act by reason of any shares allotted to him under sub-section (8) or under sub-section (9).

(11) A Director shall not dispose of any shares obtained from Government under the provisions of sub-section (8) otherwise than by re-sale to Government at par, and Government shall be entitled to re-purchase at par all such shares held by any Director on his ceasing from any cause to hold office as Director.

Increase and reduction of share capital.

5. (1) The share capital of the Bank may be increased or reduced on the recommendation of the Central Board, with the previous sanction of the Governor General in Council and with the approval of the Central Legislature, to such extent and in such manner as may be determined by the Bank in general meeting.

(2) The additional shares so created shall be of the nominal value of one hundred rupees each and shall be assigned to the various registers in the same proportions as the shares constituting the original share capital.

(3) Such additional shares shall be fully paid up, and the price at which they may be issued shall be fixed by the Central Board with the previous sanction of the Governor General in Council.

(4) The provisions of section 4 relating to the manner of allotment of the shares constituting the original share capital shall apply to the allotment of such additional shares, and existing shareholders shall not enjoy any preferential right to the allotment of such additional shares.

Offices, branches and agencies.

6. The Bank shall, as soon as may be, establish offices in Bombay, Calcutta, Delhi, Madras and Rangoon and a branch in London, and may establish branches or agencies in any other place in India or, with the previous sanction of the Governor General in Council, elsewhere.

Management.

7. The general superintendence and direction of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be

exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

Composition of the Central Board, and term of office of Directors.

8. (1) The Central Board shall consist of the following Directors, namely:—

(a) a Governor and two Deputy Governors, to be appointed by the Governor General in Council after consideration of the recommendations made by the Board in that behalf;

(b) four Directors to be nominated by the Governor General in Council;

(c) eight Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 9 and in the following numbers, namely:—

(i) for the Bombay register—two Directors

(ii) for the Calcutta register—two Directors

(iii) for the Delhi register—two Directors;

(iv) for the Madras register—one Director;

(v) for the Rangoon register—one Director and

(d) one government official to be nominated by the Governor General in Council.

(2) The Governor and Deputy Governors shall devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances as may be determined by the Central Board, with the approval of the Governor General in Council.

(3) A Deputy Governor and the Director nominated under clause (d) of sub-section (1) may attend any meeting of the Central Board and take part in its deliberations but shall not be entitled to vote:

Provided that when the Governor is absent a Deputy Governor authorized by him in this behalf in writing may vote for him.

(4) The Governor and a Deputy Governor shall hold office for such term not exceeding five years as the Governor General in Council may fix when appointing them, and shall be eligible for re-appointment.

A Director nominated under clause (b) or elected under clause (c) of sub-section (1) shall hold office for five years, or thereafter until his successor shall have been duly nominated or elected, and, subject to the provisions of section 10, shall be eligible for re-nomination or re-election.

A Director nominated under clause (d) of sub-section (1) shall hold office during the pleasure of the Governor General in Council.

(5) No act or proceeding of the Board shall be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

Local Boards, their constitution and functions.

9. (1) A Local Board shall be constituted for each of the five areas specified in the First Schedule, and shall consist of—

(a) five members elected from amongst themselves by the shareholders who are registered on the register for that area and are qualified to vote, and

(d) not more than three members nominated by the Central Board from amongst the shareholders registered on the register for that area, who may be nominated at any time:

Provided that the Central Board shall in exercising this power of nomination aim at securing the representation of territorial or economic interests not already represented, and in particular the representation of agricultural interests and the interests of co-operative banks.

(2) At an election of members of a Local Board for any area, any shareholder who has been registered on the register for that area, for a period of not less than six months ending with the date of

the election, as holding five shares shall have one vote, and each shareholder so registered as having more than five shares shall have one vote for each five shares, but subject to a maximum of ten votes, and such votes may be exercised by proxy appointed on each occasion for that purpose, such proxy being himself a shareholder entitled to vote at the election and not being an employee of the Bank.

(3) The members of a Local Board shall hold office until they vacate it under sub-section (6) and, subject to the provisions of section 10, shall be eligible for re-election or re-nomination, as the case may be.

(4) At any time within three months of the day on which the Directors representing the shareholders on any register are due to retire under the provisions of this Act, the Central Board shall direct an election to be held of members of the Local Board concerned, and shall specify a date from which the registration of transfers from and to the register shall be suspended until the election has taken place.

(5) On the issue of such direction the Local Board shall give notice of the date of the election and shall publish a list of shareholders holding five or more shares, with the dates on which their shares were registered, and with their registered addresses, and such list shall be available for purchase not less than three weeks before the date fixed for the election.

(6) The names of the persons elected shall be notified to the Central Board which shall thereupon proceed to make any nominations permitted by clause (b) of sub-section (1) it may then decide to make, and shall fix the date on which the out-going members of the Local Board shall vacate office, and the incoming members shall be deemed to have assumed office on that date.

(7) The elected members of a Local Board shall, as soon as may be after they have been elected, elect from amongst themselves one or two persons, as the case may be, to be Directors representing the shareholders on the register for the area for which the Board is constituted.

(8) A Local Board shall advise the Central Board on such matters as may be generally or specifically referred to it and shall perform such duties as the Board may, by regulations, delegate to it.

Disqualifications of Directors and members of Local Boards.

10. (1) No person may be a Director or a member of a Local Board who—

(a) is a salaried government official or a salaried official of a State in India, or

(b) is, or at any time has been, adjudicated an insolvent, or has suspended payment or has compounded with his creditors, or

(c) is found lunatic or becomes of unsound mind, or

(d) is an officer or employee of any bank, or

(e) is a director of any bank, other than a bank, which is a society registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies.

(2) No two persons who are partners of the same mercantile firm, or are directors of the same private company, or one of whom is the general agent of or holds a power of procuration from the other, or from a mercantile firm of which the other is a partner, may be Directors or members of the same Local Board at the same time.

(3) Nothing in clause (a), clause (d) or clause (e) of sub-section (1) shall apply to the Governor, or to a Deputy Governor or to the Director nominated under clause (d) of sub-section (1) of section 8.

Removal from and vacation of office.

11. (1) The Governor General in Council may remove from office the Governor, or a Deputy Governor or any nominated or elected Director :

Provided that in the case of a Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8 this power shall be exercised only on a resolution passed by the Central Board in that behalf by a majority consisting of not less than nine Directors.

(2) A Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8, and any member of a Local Board shall cease to hold office if, at any time after six months from the date of his nomination or election, he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than five thousand rupees, or if he ceases to hold unencumbered shares of that value, and any such Director shall cease to hold office if without leave from the Governor General in Council he absents himself from three consecutive meetings of the Central Board convened under sub-section (1) of section 13.

(3) The Governor General in Council shall remove from office any Director, and the Central Board shall remove from office any member of a Local Board, if such Director or member becomes subject to any of the disqualifications specified in sub-section (1) or sub-section (2) of section 10.

(4) A Director or member of a Local Board removed or ceasing to hold office under the foregoing sub-sections shall not be eligible for re-appointment either as Director or as member of a Local Board until the expiry of the term for which his appointment was made.

(5) The appointment, nomination or election as Director or member of a Local Board of any person who is a member of the Indian Legislature or of a local Legislature shall be void, unless, within two months of the date of his appointment, nomination or election, he ceases to be such member, and, if any Director or member of a Local Board is elected or nominated as a member of any such Legislature, he shall cease to be a Director or member of the Local Board as from the date of such election or nomination, as the case may be.

(6) A Director may resign his office to the Governor General in Council, and a member of a Local Board may resign his office to the Central Board, and on the acceptance of the resignation the office shall become vacant.

Casual vacancies and absences.

12. (1) If the Governor or a Deputy Governor by infirmity or otherwise is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may, after consideration of the recommendations made by the Central Board in this behalf, appoint another person to officiate for him, and such person may, notwithstanding anything contained in clause (d) of sub-section (1) of section 10, be an officer of the Bank.

(2) If an elected Director is for any reason unable to attend a particular meeting of the Central Board, the elected members of the Local Board of the area which he represents may elect one of their number to take his place, and for the purposes of that meeting the substitute so elected shall have all the powers of the absent Director.

(3) Where any casual vacancy in the office of any member of a Local Board occurs otherwise than by the occurrence of a vacancy in the office of a Director elected by the Local Board, the Central Board may nominate thereto any qualified person recommended by the elected members of the Local Board.

(4) Where any casual vacancy occurs in the office of a Director other than the vacancies provided for in sub-section (1), the vacancy shall be filled, in the case of a nominated Director by nomination, and in the case of an elected Director by election held in the

manner provided in section 9 for the election of Directors:

Provided that before such election is made the resulting vacancy, if any, in the Local Board and any vacancy in the office of an elected member of such Board which may have been filled by a member nominated under sub-section (3) shall be filled by election held as nearly as may be in the manner provided in section 9 for the election of members of a Local Board.

(5) A person nominated or elected under this section to fill a casual vacancy shall, subject to the proviso contained in sub-section (4), hold office for the unexpired portion of the term of his predecessor.

Meetings of the Central Board.

13. (1) Meetings of the Central Board shall be convened by the Governor at least six times in each year and at least once in each quarter.

(2) Any three Directors may require the Governor to convene a meeting of the Central Board at any time and the Governor shall forthwith convene a meeting accordingly.

(3) The Governor, or in his absence the Deputy Governor authorized by the Governor under the proviso to sub-section (3) of section 8 to vote for him, shall preside at meetings of the Central Board, and, in the event of an equality of votes, shall have a second or casting vote.

General meetings.

14. (1) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at a place where there is an office of the Bank within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Central Board at any other time:

Provided that the annual general meeting shall not be held on two consecutive occasions at any one place.

(2) The shareholders present at a general meeting shall be entitled to discuss the annual accounts, the report of the Central Board on the working of the Bank throughout the year and the auditors' report on the annual balance-sheet and accounts.

(3) Every shareholder shall be entitled to attend at any general meeting and each shareholder who has been registered on any register, for a period of not less than six months ending with the date of the meeting, as holding five or more shares shall have one vote and on a poll being demanded each shareholder so registered shall have one vote for each five shares, but subject to a maximum of ten votes, and such votes may be exercised by proxy appointed on each occasion for that purpose, such proxy being himself a shareholder entitled to vote at the election and not being an officer or employee of the Bank.

First constitution of the Central Board.

15. (1) The following provisions shall apply to the first constitution of the Central Board, and, notwithstanding anything contained in section 8, the Central Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(2) The first Governor and the first Deputy Governor or Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(3) The first eight Directors representing the shareholders on the various registers shall be nominated by the Governor General in Council from the areas served respectively by those registers, and the Directors so nominated shall hold office until their successors shall have been duly elected as provided in sub-section (4).

(4) On the expiry of each successive period of twelve months after the nomination of Directors

under sub-section (3) two Directors shall be elected in the manner provided in section 9 until all the Directors so nominated have been replaced by elected Directors holding office in accordance with section 8. The register in respect of which the election is to be held shall be selected by lot from among the registers still represented by nominated Directors, and for the purposes of such lot the Madras and Rangoon registers shall be treated as if they comprised one register only.

First constitution of Local Boards.

16. As soon as may be after the commencement of this Act, the Central Board shall direct elections to be held and may make nominations, in order to constitute Local Boards in accordance with the provisions of section 9, and the members of such Local Boards shall hold office up to the date fixed under sub-section (6) of section 9, but shall not exercise any right under sub-section (7) of that section.

Business which the Bank may transact.

17. The Bank shall be authorized to carry on and transact the several kinds of business hereinafter specified, namely:—

(1) the accepting of money on deposit without interest from, and the collection of money for, the Secretary of State in Council, the Governor General in Council, Local Governments, States in India, local authorities, banks and any other persons;

(2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn on and payable in India and arising out of *bona fide* commercial or trade transactions bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(b) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within nine months from the date of such purchase or rediscount, exclusive of days of grace;

(c) the purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, or such securities of States in India as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(3) (a) the purchase from and sale to scheduled banks of sterling in amounts of not less than the equivalent of one lakh of rupees;

(b) the purchase, sale and rediscount of bills of exchange (including treasury bills) drawn in or on any place in the United Kingdom and maturing within ninety days from the date of purchase, provided that no such purchase, sale or rediscount shall be made in India except with a scheduled bank; and

(c) the keeping of balances with banks in the United Kingdom;

(4) the making to States in India, local authorities, scheduled banks and provincial co-operative banks of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of—

(a) stocks, funds and securities (other than immovable property) in which a trustee is

authorized to invest trust money by any Act of Parliament or by any law for the time being in force in British India ;

(b) gold or silver or documents of title to the same ;

(c) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank ;

(d) promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents of title to goods which have been transferred, assigned, or pledged to any such bank as security for a cash credit or overdraft granted for *bond fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops ;

(5) the making to the Governor General in Council and to such Local Governments as may have the custody and management of their own provincial revenues of advances repayable in each case not later than three months from the date of the making of the advance ;

(6) the issue of demand drafts made payable at its own offices or agencies and the making, issue and circulation of bank post bills ;

(7) the purchase and sale of Government securities of the United Kingdom maturing within ten years from the date of such purchase ;

(8) the purchase and sale of securities of the Government of India or of a Local Government of any maturity or of such securities of a local authority in British India or of such States in India as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board ;

Provided that securities fully guaranteed as to principal and interest by the Government of India, a Local Government, a local authority or a State in India shall be deemed for the purposes of this clause to be securities of such Government, authority or State :

Provided further that the amount of such securities held at any time in the Banking Department shall be so regulated that—

(a) the total value of such securities shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and three-fifths of the liabilities of the Banking Department in respect of deposits ;

(b) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and two-fifths of the liabilities of the Banking Department in respect of deposits ; and

(c) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits ;

(9) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities ;

(10) the sale and realisation of all property, whether movable or immovable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims ;

(11) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government or local authority or State in India in the transaction of any of the following kinds of business, namely :—

(a) the purchase and sale of gold or silver ;

(b) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company ;

(c) the collection of the proceeds, whether principal, interest or dividends, of any securities of shares ;

(d) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere ;

(e) the management of public debt ;

(12) the purchase and sale of gold coin and bullion ;

(13) the opening of an account with or the making of an agency agreement with, and the acting as agent or correspondent of, a bank which is the principal currency authority of any country under the law for the time being in force in that country or any international bank formed by such banks, and the investing of the funds of the Bank in the shares of any such international bank ;

(14) the borrowing of money for a period not exceeding one month for the purposes of the business of the bank, and the giving of security for money so borrowed :

Provided that no money shall be borrowed under this clause from any person in India other than a scheduled bank, or from any person outside India other than a bank which is the principal currency authority of any country under the law for the time being in force in that country :

Provided further that the total amount of such borrowings from persons in India shall not at any time exceed the amount of the share capital of the Bank ;

(15) the making and issue of bank notes subject to the provisions of this Act ; and

(16) generally, the doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

Power of direct discount.

18. When, in the opinion of the Central Board or, where the powers and functions of the Central Board under this section have been delegated to a committee of the Central Board or to the Governor, in the opinion of such committee or of the Governor as the case may be, a special occasion has arisen making it necessary or expedient that action should be taken under this section for the purpose of regulating credit in the interests of Indian trade, commerce, industry and agriculture, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) or sub-clause (a) or (b) of clause (3) or clause (4) of section 17,—

(1) purchase, sell or discount any of the bills of exchange or promissory notes specified in sub-clause (a) or (b) of clause (2) or sub-clause (b) of clause (3) of that section though such bill or promissory note does not bear the signature of a scheduled bank or a provincial co-operative bank ; or

(2) purchase or sell sterling in amounts of not less than the equivalent of one lakh of rupees ; or

(3) make loans or advances repayable on demand or on the expiry of fixed periods not exceeding ninety days against the various forms of security specified in clause (4) of that section :

Provided that a committee of the Board or the Governor shall not, save in cases of special urgency, authorize action under this section without prior consultation with the Central Board and that in all cases action so authorized shall be reported to the members of the Central Board forthwith.

Business which the Bank may not transact.

19. Save as otherwise provided in sections 17, 18 and 45, the Bank may not—

(1) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking except such interest as it may in

any way acquire in the course of the satisfaction of any of its claims: provided that all such interests shall be disposed of at the earliest possible moment;

(2) purchase its own shares or the shares of any other bank or of any company, or grant loans upon the security of any such shares;

(3) advance money on mortgage of, or otherwise on the security of, immovable property or documents of title relating thereto, or become the owner of immovable property, except so far as is necessary for its own business premises and residences for its officers and servants;

(4) make loans or advances;

(5) draw or accept bills payable otherwise than on demand;

(6) allow interest on deposits or current accounts.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

Obligation of the Bank to transact Government business.

20. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues and such States in India as may be approved of and notified by the Governor General in Council in the Gazette of India, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the public debt.

Bank to have the right to transact Government business in India.

21. (1) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India, and, in particular, shall deposit free of interest all their cash balances with the Bank:

Provided that nothing in this sub-section shall prevent the Governor General in Council or any Local Government from carrying on money transactions at places where the Bank has no branches or agencies, and the Governor General in Council and Local Governments may hold at such places such balances as they may require.

(2) The Governor General in Council and each Local Government shall entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans.

(3) In the event of any failure to reach agreement on the conditions referred to in this section the Governor General in Council shall decide what the conditions shall be.

(4) Any agreement made under this section to which the Governor General in Council or any Local Government is a party shall be laid, as soon as may be after it is made, before the Central Legislature and in the case of a Local Government before its local Legislature also.

Right to issue bank notes.

22. (1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period which shall be fixed by the Governor General in Council on the recommendation of the Central Board, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to

bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the date on which this Chapter comes into force the Governor General in Council shall not issue any currency notes.

Issue Department.

23. (1) The issue of bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 34.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

Denominations of notes.

24. Bank notes shall be of the denominational values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, unless otherwise directed by the Governor General in Council on the recommendation of the Central Board.

Form of bank notes.

25. The design, form and material of bank notes shall be such as may be approved by the Governor General in Council after consideration of the recommendations made by the Central Board.

Legal tender character of notes.

26. (1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or on account for the amount expressed therein, and shall be guaranteed by the Governor General in Council.

(2) On recommendation of the Central Board the Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

Re-issue of notes.

27. The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

Recovery of notes lost, stolen, mutilated or imperfect.

28. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note:

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in and the conditions and limitations subject to which the value of such currency notes or bank notes may be refunded as of grace and the rules made under this proviso shall be laid on the table of both Houses of the Central Legislature.

Bank exempt from stamp duty on bank notes.

29. The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, (II of 1899) in respect of bank notes issued by it.

Powers of Governor General in Council to supersede Central Board.

30. (1) If in the opinion of the Governor General in Council the Bank fails to carry out any of the obligations imposed on it by or under this Act, he may, by notification in the Gazette of India, declare the Central Board to be superseded, and thereafter the general superintendence and direction of the affairs of the Bank shall be entrusted to such agency as the Governor General in Council may determine, and such agency may exercise the powers and do all acts and things which may be exercised or done by the Central Board under this Act.

(2) When action is taken under this section the Governor General in Council shall cause a full report of the circumstances leading to such action and of the action taken to be laid before the Central Legislature at the earliest possible opportunity and in any case within three months from the issue of the notification superseding the Board.

Issue of demand bills and notes.

31. No person in British India other than the Bank or, as expressly authorized by this Act, the Governor General in Council shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such person :

Provided that cheques or drafts, including hundis, payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

Penalty.

32. (1) Any person contravening the provisions of section 31 shall be punishable with fine which may extend to the amount of the bill, hundi, note or engagement in respect whereof the offence is committed.

(2) No prosecution under this section shall be instituted except on complaint made by the Bank.

Assets of the Issue Department.

33. (1) The assets of the Issue Department shall consist of gold coin, gold bullion, sterling securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(2) Of the total amount of the assets, not less than two-fifths shall consist of gold coin, gold bullion or sterling securities :

Provided that the amount of gold coin and gold bullion shall not at any time be less than forty crores of rupees in value.

(3) The remainder of the assets shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes payable in British India as are eligible for purchase by the Bank under sub-clause (a) or sub-clause (b) of clause (2) of section 17 or under clause (1) of section 18 :

Provided that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the assets or fifty crores of rupees, whichever amount is greater, or, with the previous sanction of the Governor General in Council, such amount plus a sum of ten crores of rupees.

(4) For the purposes of this section, gold coin and gold bullion shall be valued at 8.47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and securities shall be valued at the market rate for the time being obtaining.

(5) Of the gold coin and gold bullion held as assets, not less than seventeen-twentieths shall be held in British India, and all gold coin and gold bullion held as assets shall be held in the custody of the Bank or its agencies :

Provided that gold belonging to the Bank which is in any other bank or in any mint or treasury or in transit may be reckoned as part of the assets.

(6) For the purposes of this section, the sterling securities which may be held as part of the assets shall be securities of any of the following kinds payable in the currency of the United Kingdom, namely :—

(a) balances at the credit of the Issue Department with the Bank of England ;

(b) bills of exchange bearing two or more good signatures and drawn on and payable at any place in the United Kingdom and having a maturity not exceeding ninety days ;

(c) Government securities of the United Kingdom maturing within five years :

Provided that, for a period of two years from the date on which this Chapter comes into force, any of such last mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17.

Liabilities of the Issue Department.

34. (1) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation.

(2) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall notwithstanding anything contained in sub-section (2) of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be ; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

Initial assets and liabilities.

35. On the date on which this Chapter comes into force the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation and the Governor General in Council shall transfer to the Issue Department gold coin, gold bullion, sterling securities, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 33 :

Provided that the total amount of the gold coin, gold bullion and sterling securities so transferred shall not be less than one-half of the whole amount transferred, and that the amount of rupee coin so transferred shall not exceed fifty crores of rupees :

Provided further that the whole of the gold coin and gold bullion held by the Governor General in Council in the gold standard reserve and the paper currency reserve at the time of transfer shall be so transferred.

Method of dealing with fluctuations in rupee coin assets.

36. (1) After the close of any financial year in which the minimum amount of rupee coin held in the assets, as shown in any of the weekly accounts of the Issue Department for that year prescribed under sub-section (1) of section 53 is greater than fifty crores of rupees or one-sixth of the total amount of the assets as shown in that account, whichever may be the greater, the Bank may deliver to the Governor General in Council rupee coin up to the

amount of such excess but not without his consent exceeding five crores of rupees, against payment of legal tender value in the form of bank notes, gold or securities:

Provided that if the Bank so desires and if the amount of gold coin, gold bullion and sterling securities in the assets does not at that time exceed one-half of the total assets, a proportion not exceeding two-fifths of such payment shall be in gold coin, gold bullion or such sterling securities as may be held as part of the assets under sub-section (6) of section 33.

(2) After the close of any financial year in which the maximum amount of rupee coin held in the assets, as so shown, is less than fifty crores of rupees or one-sixth of the total amount of the assets, as so shown, whichever may be the greater, the Governor General in Council shall deliver to the Bank rupee coin up to the amount of such deficiency, but not without its consent exceeding five crores of rupees, against payment of legal tender value.

Suspension of assets requirements.

37. (1) Notwithstanding anything contained in the foregoing provisions, the Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold as assets gold coin, gold bullion or sterling securities of less aggregate amount than that required by sub-section (2) of section 33 and, whilst the holding is so reduced, the proviso to that sub-section shall cease to be operative:

Provided that the gold coin and gold bullion held as such assets shall not be reduced below the amount specified in the proviso to sub-section (2) of section 33 so long as any sterling securities remain held as such assets.

(2) In respect of any period during which the holding of gold coin, gold bullion and sterling securities is reduced under sub-section (1), the Bank shall pay to the Governor General in Council a tax upon the amount by which such holding is reduced below the minimum prescribed by sub-section (2) of section 33; and such tax shall be payable at the bank rate for the time being in force, with an addition of one per cent. per annum when such holding exceeds thirty-two and a half per cent. of the total amount of the assets and of a further one and a half per cent. per annum in respect of every further decrease of two and a half per cent. or part of such decrease:

Provided that the tax shall not in any event be payable at a rate less than six per cent. per annum.

Obligations of Government and the Bank in respect of rupee coin.

38. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 36 nor to put into circulation any rupees, except through the Bank and as provided in that section; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

Obligation to supply different forms of currency.

39. (2) The Bank shall issue rupee coin on demand in exchange for bank notes and currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act 1906 (III of 1906).

(2) The Bank shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or other coins which are legal tender under the Indian Coinage Act 1906 (III of 1906), in such quantities as may, in the opinion of the Bank, be required for circulation:

and the Governor General in Council shall supply such coins to the Bank on demand. If the Governor General in Council at any time fails to supply such coins, the Bank shall be released from its obligations to supply them to the public.

Obligation to sell sterling.

40. The Bank shall sell, to any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and pays the purchase price in legal tender currency, sterling for immediate delivery in London, at a rate not below one shilling and five pence and forty-nine sixty-fourths of a penny for a rupee:

Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds.

Obligation to buy sterling.

41. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, sterling for immediate delivery in London, at a rate not higher than one shilling and six pence and three-sixteenths of a penny for a rupee:

Provided that no person shall be entitled to demand to sell an amount of sterling less than ten thousand pounds:

Provided further that no person shall be entitled to receive payment unless the Bank is satisfied that payment of the sterling in London has been made.

Cash reserves of scheduled banks to be kept with the Bank.

42. (1) Every bank included in the Second Schedule shall maintain with the Bank a balance the amount of which shall not at the close of business on any day be less than five per cent. of the demand liabilities and two per cent. of the time liabilities of such bank in India as shown in the return referred to in sub-section (2).

Explanation.—For the purposes of this section liabilities shall not include the paid-up capital or the reserves, or any credit balance in the profit and loss account of the bank or the amount of any loan taken from the Reserve Bank.

(2) Every scheduled bank shall send to the Governor General in Council and to the Bank a return signed by two responsible officers of such bank showing:—

(a) the amounts of its demand and time liabilities, respectively, in India,

(b) the total amount held in India in currency notes of the Government of India and bank notes,

(c) the amounts held in India in rupee coin and subsidiary coin, respectively,

(d) the amounts of advances made and of bills discounted in India, respectively, and

(e) the balance held at the Bank,

at the close of business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, 1881 (XXVI of 1881), at the close of business on the preceding working day; and such return shall be sent not later than two working days; and such return shall be sent not later than two working days after the date to which it relates:

Provided that where the Bank is satisfied that the furnishing of a weekly return under this sub-section is impracticable in the case of any scheduled bank by reason of the geographical position of the bank and its branches, the Bank may require such bank to furnish in lieu of a weekly return a monthly return to be dispatched not later than fourteen days after the end of the month to which it relates giving the details specified in this sub-section in respect of such bank at the close of business for the month.

(3) If at the close of business on any day before the day fixed for the next return, the balance held at the Bank by any scheduled bank is below the

minimum prescribed in sub-section (1), such scheduled bank shall be liable to pay to the Bank in respect of each such day penal interest at a rate three per cent. above the bank rate on the amount by which the balance with the Bank falls short of the prescribed minimum, and if on the day fixed for the next return such balance is still below the prescribed minimum as disclosed by this return, the rates of penal interest shall be increased to a rate five cent. above the bank rate in respect of that day and each subsequent day on which the balance held at the Bank at the close of business on that day is below the prescribed minimum.

(4) Any scheduled bank failing to comply with the provisions of sub-section (2) shall be liable to pay the Governor General in Council or to the Bank, as the case may be, or to each, a penalty of one hundred rupees for each day during which the failure continues.

(5) The penalties imposed by sub-sections (3) and (4) shall be payable on demand made by the Bank, and, in the event of a refusal by the defaulting bank to pay on such demand, may be levied by a direction of the principal Civil Court having jurisdiction in the area where an office of the defaulting bank is situated, such direction to be made only upon application made in this behalf to the Court by the Governor General in Council in the case of a failure to make a return under sub-section (2) to the Governor General in Council, or by the Bank with the previous sanction of the Governor General in Council in other cases.

(6) The Governor General in Council shall, by notification in the Gazette of India, direct the inclusion in the Second Schedule of any bank not already so included which carries on the business of banking in British India and which—

(a) has a paid-up capital and reserves of an aggregate value of not less than five lakhs of rupees and

(b) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, (VII of 1913), or a corporation or a company incorporated by or under any law in force in any place outside British India,

and shall by a like notification direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserves becomes at any time less than five lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

Publication of consolidated statement by the Bank.

43. The Bank shall compile and shall cause to be published each week a consolidated statement showing the aggregate of the amounts under each clause of sub-section (2) of section 42 exhibited in the returns received from scheduled banks under that section.

Power to require returns from co-operative banks.

44. The Bank may require any provincial co-operative bank with which it has any transactions under section 17 to furnish the return referred to in sub-section (2) of section 42, and if it does so, the provisions of sub-sections (4) and (5) of section 42 shall apply so far as may be to such co-operative bank as if it were a scheduled bank.

Agreement with the Imperial Bank.

45. (1) The Bank shall enter into an agreement with the Imperial Bank of India which shall be subject to the approval of the Governor General in Council, and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for fifteen years and thereafter until terminated after five years' notice on either side, and shall further contain the provisions set forth in the Third Schedule:

Provided that the agreement shall be conditional on the maintenance of a sound financial position by the Imperial Bank and that if, in the opinion of the Central Board, the Imperial Bank has failed either to fulfil the conditions of the agreement or to maintain a sound financial position, the Central Board shall make a recommendation to the Governor General in Council, and the Governor General in Council, after making such further enquiry as he thinks fit, may issue instructions to the Imperial Bank with reference either to the agreement or to any matter which in his opinion involves the security of the Government monies or the assets of the Issue Department in the custody of the Imperial Bank, and in the event of the Imperial Bank disregarding such instructions may declare the agreement to be terminated.

(2) The agreement referred to in sub-section (1) shall, as soon as may be after it is made, be laid before the Central Legislature.

CHAPTER IV.

General Provisions.

Contribution by Governor General in Council to the Reserve Fund.

46. The Governor General in Council shall transfer to the Bank rupee securities of the value of five crores of rupees to be allocated by the Bank to the Reserve Fund.

Allocation of surplus

47. After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, and after payment out of the net annual profits of a cumulative dividend at such rate not exceeding five per cent. per annum on the share capital as the Governor General in Council may fix at the time of the issue of shares, a portion of the surplus shall be allocated to the payment of an additional dividend to the shareholders calculated on the scale set forth in the Fourth Schedule and the balance of the surplus shall be paid to the Governor General in Council.

Provided that if at any time the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.

Exemption of Bank from income-tax and super-tax and provision for deduction at source of income-tax on dividends.

48. (1) Notwithstanding anything contained in the Indian Income-tax Act, 1922 (XI of 1922), or any other enactment for the time being in force relating to income-tax or super-tax, the Bank shall not be liable to pay income-tax or super-tax on any of its income, profits or gains:

Provided that nothing in this section shall affect the liability of any shareholder in respect of income-tax or super-tax.

(2) For the purposes of section 18 of the Indian Income-tax Act, 1922 (XI of 1922), and of any other relevant provision of that Act relating to the levy and refund of income-tax any dividend paid under section 47 of this Act shall be deemed to be "Interest on Securities".

Publication of Bank rate.

49. The Bank shall make public from time to time the standard rate at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under this Act.

Auditors.

50. (1) Not less than two auditors shall be elected and their remuneration fixed at the annual general meeting. The auditors may be shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(2) The first auditors of the Bank may be appointed by the Central Board before the first annual general meeting and, if so appointed, shall hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections:

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Central Board.

Appointment of special auditors by Government.

51. Without prejudice to anything contained in section 50, the Governor General in Council may at any time appoint the Auditor General or such auditors as he thinks fit to examine and report upon the accounts of the Bank.

Powers and duties of auditors.

52. (1) Every auditor shall be supplied with a copy of the annual balance-sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(2) The auditors shall make a report to the shareholders or to the Governor General in Council, as the case may be, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case they have called for any explanation or information from the Central Board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Central Board, at the annual general meeting.

Returns.

53. (1) The Bank shall prepare and transmit to the Governor General in Council a weekly account of the Issue Department and of the Banking Department in the form set out in the Fifth Schedule or in such other form as the Governor General in Council may, by notification in the Gazette of India, prescribe. The Governor General in Council shall cause the accounts to be published weekly in the Gazette of India.

(2) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a copy of the annual accounts signed by the Governor, the Deputy Governors and the Chief Accounting Officer of the Bank, and certified by the auditors, together with a report by the Central Board on the working of the Bank throughout the year, and the Governor General in Council shall cause such accounts and report to be published in the Gazette of India.

(3) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor General in Council a statement showing the name, address

and occupation of, and the number of shares held by, each shareholder of the Bank.

Agricultural Credit Department.

54. The Bank shall create a special Agricultural Credit Department the functions of which shall be—

- (a) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Governor General in Council, Local Governments, provincial co-operative banks, and other banking organisations,
- (b) to co-ordinate the operations of the Bank in connection with agricultural credit and any other banks or organisations engaged in the business of agricultural credit.

Reports by the Bank.

55. (1) The Bank shall, at the earliest practicable date and in any case within three years from the date on which this Chapter comes into force, make to the Governor General in Council a report, with proposals, if it thinks fit, for legislation, on the following matters, namely:—

- (a) the extension of the provisions of this Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking, and
- (b) the improvement of the machinery for dealing with agricultural finance and methods for effecting a closer connection between agricultural enterprise and the operations of the Bank.

(2) When the Bank is of opinion that the international monetary position has become sufficiently clear and stable to make it possible to determine what will be suitable as a permanent basis for the Indian monetary system and to frame permanent measures for a monetary standard it shall report its views to the Governor General in Council.

Power to require declaration as to ownership of registered shares.

56. (1) The Local Board of any area may at any time require any shareholder who is registered on the register for that area to furnish to the Local Board within a specified time, not being less than thirty days, a declaration, in such form as the Central Board may by regulations prescribe, giving particulars of all shares on the said register of which he is the owner.

(2) If it appears from such declaration that any shareholder is not the owner of any shares which are registered in his name, the Local Board may amend the register accordingly.

(3) If any person required to make a declaration under sub-section (1) fails to make such declaration within the specified time, the Local Board may make an entry against his name in the register recording such failure and directing that he shall have no right to vote, either under section 9 or section 14, by reason of the shares registered in his name on that register.

(4) Whoever makes a false statement in any declaration furnished by him under sub-section (1) shall be deemed to have committed the offence of giving false evidence defined in section 191 of the Indian Penal Code (XLV of 1860), and shall be punishable under the second paragraph of section 193 of that Code.

(5) Nothing contained in any declaration furnished under sub-section (1) shall operate to affect the Bank with notice of any trust, and no notice of any trust expressed, implied or constructive shall be entered on the register or be receivable by the Bank.

(6) Until Local Boards have been constituted under section 9 the powers of a Local Board under this section shall be exercised by the Central Board in respect of any area for which a Local Board has not been constituted.

Liquidation of the Bank.

57. (1) Nothing in the Indian Companies Act, 1913 (VII of 1913), shall apply to the Bank, and the Bank shall not be placed in liquidation save by order of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent. and twenty-five per cent., respectively:

Provided that the total amount payable to any shareholder under this section shall not exceed the paid-up value of the shares held by him by more than one per cent. for each year after the commencement of this Act subject to a maximum of twenty-five per cent.

Power of the Central Board to make regulations.

58. (1) The Central Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely:—

- (a) the holding and conduct of elections under this Act, including provisions for the holding of any elections according to the principle of proportional representation by means of the single transferable vote;
- (b) the final decision of doubts or disputes regarding the qualifications of candidates for election or regarding the validity of elections;
- (c) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally, all matters relating to the rights and duties of shareholders;
- (d) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which votes may be exercised;
- (e) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons;
- (f) the manner in which the business of the Central Board shall be transacted, and the procedure to be followed at meetings thereof;
- (g) the conduct of business of Local Boards and the delegation to such Boards of powers and functions;
- (h) the delegation of powers and functions of the Central Board to the Governor, or to Deputy Governors, Directors or officers of the Bank;
- (i) the formation of Committees of the Central Board, the delegation of powers and functions of the Central Board to such Committees, and the conduct of business in such Committees;
- (j) the constitution and management of staff and superannuation funds for the officers and servants of the Bank;
- (k) the manner and form in which contracts binding on the Bank may be executed;

- (l) the provision of an official seal of the Bank and the manner and effect of its use;
- (m) the manner and form in which the balance sheet of the Bank shall be drawn up, and in which the accounts shall be maintained;
- (n) the remuneration of Directors of the Bank;
- (o) the relations of the scheduled banks with the Bank and the returns to be submitted by the scheduled banks to the Bank;
- (p) the regulation of clearing-houses for the scheduled banks;
- (q) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded; and
- (r) generally, for the efficient conduct of the business of the Bank.

(3) Copies of all regulations made under this section shall be available to the public on payment.

Amendment of Act III of 1906.

59. In the Indian Coinage Act, 1906 (III of 1906), for section 11 the following section shall be substituted, namely:—

Demonetisation of sovereign and half-sovereign.

“11. Gold coins, coined at His Majesty's Royal Mint in England or at any mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices, branches and agencies in India at the bullion value of such coins calculated at the rate of 8.47512 grains troy of fine gold per rupee.”

Repeals.

60. The Indian Paper Currency Act, 1923 (X of 1923), the Indian Paper Currency (Amendment) Act, 1923 (XXXVI of 1923), the Indian Paper Currency (Amendment) Act, 1925 (II of 1925), and the Currency Act, 1927 (IV of 1927), are hereby repealed.

Amendment of Section II, Act VII of 1913.

61. In sub-section (3) of section 11 of the Indian Companies Act, 1913 (VII of 1913), after the word “Royal” the words “Reserve Bank” shall be inserted.

THE FIRST SCHEDULE.

(See section 4.)

- Areas served by the various Share Registers.
- I. The WESTERN AREA, served by the BOMBAY Register, shall consist of—
the Bombay Presidency including Sind, the Central Provinces, Berar, Hyderabad, Baroda, Khairpur, the Western India States, the Central India States (including Makrai but excluding Rewah and other States of Bundelkhand and Baghelkhand), the Gujerat States, Kolhapur and the Deccan States.
 - II. The EASTERN AREA, served by the CALCUTTA Register, shall consist of—
the Bengal Presidency, Bihar and Orissa, Assam, Sikkim, Manipur, Cooch-Bihar, Tripura, the Eastern States, Rewah and other States of Bundelkhand and Baghelkhand, and the Khasi States.
 - III. The NORTHERN AREA, served by the DELHI Register, shall consist of—
the United Provinces, Delhi, the Punjab, the North-West Frontier Province, Ajmer-Merwara, Baluchistan, Kashmir, the Punjab States, excluding Khairpur, the Simla Hill States, Dujana, Pataudi, Kalsia, Rampur, Tehri-Garhwal, Benares, the Rajputana States including Palampur and Danta, Gwalior, Khandiadhana, Kalat, Las Bela, Hunza, Nagir, Amb, Chitral, Dir, Phulera and Swat.
 - IV. The SOUTHERN AREA, served by the MADRAS Register, shall consist of—
the Madras Presidency, Coorg, Mysore and the Madras States.
 - V. The BURMA AREA, served by the RANGOON Register, shall consist of—
Burma, the Andaman and Nicobar Islands, Bawlake, Kantarawadi and Kyeboyyi.

THE SECOND SCHEDULE.

[See section 42 and section 2 (e).]

Scheduled Banks.

Ajodhia Bank, Fyzabad.
 Allahabad Bank.
 American Express Company Incorporated.
 Banco Nacional Ultramarino.
 Bangalore Bank.
 Bank of Baroda.
 Bank of Behar.
 Bank of Chettinad, Madras.
 Bank of Hindustan, Madras.
 Bank of India, Bombay.
 Bank of Mysore.
 Bank of Taiwan.
 Bank of Upper Burma.
 Benares Bank.
 Bengal Central Bank.
 Bhagwan Das & Co., Dehra Dun.
 Canada Bank.
 Central Bank of India.
 Chartered Bank of India, Australia and China.
 Comptoir National d'Escompte de Paris.
 Eastern Bank.
 Grindlay and Company.
 Hongkong and Shanghai Banking Corporation.
 Imperial Bank of India.
 Imperial Bank of Persia.
 Indian Bank, Madras.
 Industrial Bank of Western India, Ahmedabad.
 Jalpaiguri Banking and Trading Corporation.
 Karnani Industrial Bank.
 Lloyds Bank.
 Mercantile Bank of India.
 Mitsui Bank, Bombay.
 Muffassil Bank, Gorakhpur.
 National Bank of India.
 National City Bank of New York.
 Nederlandsche Indische Handels-bank.
 Nederlandsche Handel-Maatschappij.
 Nedungadi Bank, Calicut.
 Oudh Commercial Bank.
 Peoples' Bank of Northern India.
 P. and O. Banking Corporation.
 Punjab and Sind Bank, Amritsar.
 Punjab Co-operative Bank, Amritsar.
 Punjab National Bank, Lahore.
 Simla Banking and Industrial Company.
 Thomas Cook & Sons.
 Travancore National Bank, Tiruvalla.
 Union Bank of India, Bombay.
 U. Rai Gyaw Thoo and Co., Akyab.
 Yokohama Specie Bank.

THE THIRD SCHEDULE

(See section 43.)

Provisions to be contained in the agreement between the Reserve Bank of India and the Imperial Bank of India.

1. The Imperial Bank of India shall be the (sole agent) of the Reserve Bank of India at all places in British India where there is a branch of the Imperial Bank of India which was in existence at the commencement of the Reserve Bank of India Act, 1934, and there is no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance at the places referred to in clause 1 by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council before the coming into force of the Reserve Bank of India Act, 1934, the Reserve Bank of India shall pay to the Imperial Bank of India as remuneration a sum which shall be for the first ten years during which this agreement is in force a commission calculated at one-sixteenth of one per cent. on the first 250 crores and one-thirty-second of one per cent. on the remainder of the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India. At the close of the said ten years the remuneration to be paid by the Reserve Bank of India to the Imperial Bank of India for the performance of these functions shall be revised and the remuneration for the ensuing five years shall be determined on the basis of the actual cost to the Imperial Bank of India, as ascertained by expert accounting investigation, of performing the said functions. The remuneration so determined shall thereafter be subject to revision in like manner at the end of each period of five years so long as this agreement remains in force. If any dispute arises between the Reserve Bank of India and the Imperial Bank of India as to the amount of the said remuneration the matter shall be referred for final decision to the Governor General in Council who may require from the Imperial Bank such information and may order such accounting investigation as he thinks fit.

3. In consideration of the maintenance by the Imperial Bank of India of branches not less in number than those

existing at the commencement of the Reserve Bank of India Act, 1934, the Reserve Bank of India shall, until the expiry of fifteen years from the coming into force of this agreement, make to the Imperial Bank of India the following payments, namely:—

- (a) during the first five years of this agreement—(nine lakhs) of rupees per annum;
- (b) during the next five years of the agreement—six lakhs of rupees per annum; and
- (c) during the next five years of the agreement—four lakhs of rupees per annum.

4. The Imperial Bank of India shall not without the approval of the Reserve Bank of India open any branch in substitution for a branch existing at the time this agreement comes into force.

THE FOURTH SCHEDULE.

(See section 47.)

SCALE OF ADDITIONAL DIVIDEND PAYABLE TO SHAREHOLDERS.

A. If the maximum rate of dividend fixed under section 47 is five per centum and so long as the share capital of the Bank is five crores of rupees—

- (1) if the surplus does not exceed four crores of rupees—Nil.
- (2) if the surplus exceeds four crores or rupees—
 - (a) out of such excess up to the first one and a half crores of rupees—a fraction equal to one-sixtieth;
 - (b) out of each successive additional excess up to one and a half crores of rupees—one-half of the fraction payable out of the next previous one and a half crores of excess:

Provided that the additional dividend shall be a multiple of one-eighth of one per cent. on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent. on the share capital.

B. If the maximum rate of dividend fixed under section 47 is below five per centum, the said fraction of one-sixtieth shall be increased in the ratio of the difference between six and the fixed rate to unity.

C. When the original share capital of the Bank has been increased or reduced, the said fraction of one-sixtieth shall be increased or diminished in proportion to the increase or reduction of the share capital.

THE FIFTH SCHEDULE.

RESERVE BANK OF INDIA.

An Account pursuant to the Reserve Bank of India Act, 1934, for the week ending on the _____ day of _____

Liabilities—		Assets—	
	Rs.		Rs.
Bank Notes held in the Banking Department		A. Gold coin in bullion—	
Bank Notes in circulation		(a) held in India	
Total Bank Notes issued		(b) held outside India	
Government of India Notes in circulation		Sterling Securities	
		Total of A.	
		B. Rupee coin	
		Government of India rupee securities	
		Internal bills of exchange and other commercial paper	
Total Liabilities		Total Assets	
Ratio of total of A to liabilities		per cent.	
Dated the _____ day of _____		19	

BANKING DEPARTMENT.

Liabilities.		Assets.	
	Rs.		Rs.
Capital paid up		Notes	
Reserve		Rupee coin	
Deposits—		Subsidiary coin	
(a) Government		Bills discounted—	
(b) Banks		(a) Internal	
(c) Others		(b) External	
Bills payable		(c) Government of India Treasury Bills	
Other liabilities		Balances held abroad	
		Loans and advances to the Government	
		Other loans and advances	
		Investments	
		Other assets	
Dated the _____ day of _____		19	

ACT NO. III OF 1934.

[PASSED BY THE INDIAN LEGISLATURE]

An Act further to amend the Imperial Bank of India Act, 1920, for certain purposes.

XLVII of 1920.

WHEREAS by reason of the constitution of the Reserve Bank of India it is expedient further to amend the Imperial Bank of India Act, 1920, in order to modify the control of the Governor General in Council over the management of the Bank, to remove certain restrictions on the transaction of business by the Bank, and to provide for an agreement between the Bank and the Reserve Bank of India; It is hereby enacted as follows:—

Short title and commencement.

1. (1) This Act may be called the Imperial Bank of India (Amendment) Act, 1934.

(2) It shall come into force on such date as the Governor General in Council may, by notification in the Gazette of India, appoint.

Amendment of section 2, Act XLVII of 1920.

2. After clause (i) of section 2 of the Imperial Bank of India Act, 1920 (XLVII of 1920), (hereinafter referred to as the said Act), the following clause shall be inserted, namely:—

“(ii) ‘secretary’ and ‘deputy secretary’ mean, respectively, a secretary and treasurer and a deputy secretary and treasurer of the Bank.”

Repeal of section 9, Act XLVII of 1920.

3. Section 9 of the said Act is hereby repealed.

Amendment of section 10, Act XLVII of 1920.

4. (1) In sub-section (1) of section 10 of the said Act,—

(a) for the words “the Secretary of State for India in Council” the words “the Reserve Bank of India” shall be substituted;

(b) in clause (i), the words “to act as banker for, and” shall be omitted, and after the word “securities” the words “as agent for the Reserve Bank of India” shall be inserted; and

(c) in clause (ii), for the words “the Government” the words “the Reserve Bank of India” shall be substituted.

(2) Sub-section (2) of the same section shall be omitted.

Amendment of section 13, Act XLVII of 1920.

5. In clause (a) of section 12 of the said Act, after the words “at such places” the words, “whether in India or elsewhere,” shall be inserted.

Amendment of section 12, Act XLVII of 1920.

6. In sub-section (1) of section 13 of the said Act, after the words “in India” the words “or elsewhere” shall be inserted, and the Explanation after sub-section (2) shall be omitted.

Amendment of section 13A, Act XLVII of 1920.

7. In section 13A of the said Act, the words “as defined in section 13” shall be omitted, and

after the words and figures “Co-operative Societies Act, 1912,” the words “or any other law for the time being in force in British India relating to co-operative societies” shall be inserted.

Amendment of section 20, Act XLVII of 1920.

8. To section 20 of the said Act the following sub-section shall be added, namely:—

“(3) A copy of the principal register of shareholders shall be compiled within 30 days after the date of the first ordinary general meeting in each year and shall be filed forthwith with the officer performing the duty of registration of companies under the Indian Companies Act, 1913 (VII of 1913).

Amendment of section 23, Act XLVII of 1920.

9. In section 23 of the said Act, the words, “with the previous sanction of the Governor General in Council,” and the words “The Bank may also, subject to the provisions of this Act as to the business to be transacted there, establish an office in London,” shall be omitted.

Amendment of section 24, Act XLVII of 1920.

10. In section 24 of the said Act, for the word “Governors” the word “Directors” shall be substituted.

Amendment of section 25, Act XLVII of 1920.

11. In section 25 of the said Act, the words, “with the previous sanction of the Governor General in Council,” shall be omitted.

Substitution of new section for section 28, Act XLVII of 1920.

12. For section 28 of the said Act the following section shall be substituted, namely:—

Constitution of Central Board.

“28. (1) The Central Board shall consist of the following Directors, namely:—

(i) the presidents and vice-presidents of the Local Boards established by this Act;

(ii) one person to be elected from amongst themselves by the members of each Local Board established by this Act;

(iii) a Managing Director who shall be appointed by the Central Board for a period not exceeding five years on such terms as the Central Board may direct, and may be continued in his appointment by the Central Board for such further periods not exceeding five years in each case as the Central Board thinks fit;

(iv) such number of persons not exceeding two and not being officers of the Government as may be nominated by the Governor General in Council. Such persons shall hold office for one year but may be re-nominated;

- (v) a Deputy Managing Director who shall be appointed by the Central Board;
- (vi) the secretaries of the Local Boards established by this Act; and
- (vii) if any Local Board is hereafter established under this Act, such number of persons to represent it as the Central Board may prescribe.

(2) The Directors specified in clauses (v) and (vi) of sub-section (1) shall be at liberty to attend all meetings of the Central Board and to take part in its deliberations, but shall not be entitled to vote on any question arising at any meeting:

Provided that the Deputy Managing Director shall be entitled to vote in the absence of the Managing Director.

(3) The Governor General in Council shall nominate an officer of Government to attend the meetings of the Central Board, and such officer shall be entitled to attend all meetings of the Central Board and to take part in its deliberations but shall not be entitled to vote on any question arising at any meeting."

Repeal of section 30, Act XLVII of 1920.

13. Section 30 of the said Act is hereby repealed.

Amendment of section 31, Act XLVII of 1920.

14. In section 31 of the said Act,—

- (a) in sub-section (1),—
 - (i) in clause (b), for the word "Governors," wherever it occurs, the word "Directors" shall be substituted, and
 - (ii) in clause (c), for the words "the half-yearly balance-sheet" the words "the annual and half-yearly balance-sheets" shall be substituted; and
- (b) in clauses (b) and (d) of sub-section (2), for the word "Governors" the word "Directors" shall be substituted.

Amendment of Schedule I, Act XLVII of 1920.

15. (1) In Part I of Schedule I to the said Act, the following amendments shall be made, namely:—

- (a) in sub-clause (i) of clause (a), after the words "Governor General in Council" the word "and" shall be omitted, and after the word "Ceylon" the words "and shares of the Reserve Bank of India" shall be added;
- (b) in sub-clause (iii) of the same clause, after the words "a district board" the words "or a municipal board or committee or, with the sanction of the Governor General in Council, debentures or other securities for money issued under the authority of a Prince or Chief of any State in India" shall be inserted;
- (c) after sub-clause (iii) of the same clause the following sub-clause shall be inserted, namely:—
 - "(iiia) subject to such directions as may be issued by the Central Board, debentures of companies with limited liability whether registered in India or elsewhere";
- (d) after sub-clause (iv) of the same clause the following sub-clause shall be inserted, namely:—
 - "(iva) goods which are hypothecated to the Bank as security for such advances, loans or credits, if so authorised by special directions of the Central Board";

(e) in sub-clause (vi) of the same clause, the words "and debentures" shall be omitted; and for the words "if so authorised by any general or special directions of the Central Board" the words "subject to such directions as may be issued by the Central Board" shall be substituted;

(f) in clause (b), for the words "assigned to" the words "pledged, hypothecated, assigned or transferred to" shall be substituted, and for the words "or assignment" the words, "pledge, hypothecation, assignment or transfer" shall be substituted;

(g) in clause (c), for the words "six months" the words "nine months in the case of advances or loans relating to the financing of seasonal agricultural operations or six months in other cases" shall be substituted;

(h) in clause (d), the words beginning with the words "payable in India, or in Ceylon" and ending with the words "may approve in that behalf" shall be omitted;

(i) in clause (f), the words "made payable in India, or in Ceylon," shall be omitted;

(j) in clause (j), after the word "claims" the following shall be added, namely:—

"and the acquisition and holding of, and generally the dealing with, any right, title or interest in any property, moveable or immovable, which may be the Bank's security for any loan or advance or may be connected with any such security";

(k) to clause (k) the following words shall be added, namely:—

"and the entering into of contracts of indemnity, suretyship or guarantee with specific security or otherwise";

(l) in clause (l), for the words "the acting as administrator, executor or trustee for the purpose of winding up estates" the words "the administration of estates for any purpose whether as an executor, trustee or otherwise" shall be substituted;

(m) in sub-clause (iii) of clause (l), the words "at the risk of the principal" shall be omitted;

(n) in clause (m), the words beginning with the words "for the use of" and ending with the words "personal needs" shall be omitted;

(o) in clause (n), the words "for the purpose of meeting such bills or letters of credit," shall be omitted, and for the words "six months" the words "nine months in the case of bills relating to the financing of seasonal agricultural operations or six months in other cases" shall be substituted;

(p) in clause (o), the words "in India" shall be omitted;

(q) for clause (p) the following clause shall be substituted, namely:—

"(p) the subsidizing from time to time of the pension funds of the Presidency Banks; and"

(r) in clause (q), after the words "kinds of business" the words "including foreign exchange business," shall be inserted.

(2) In sub-clause (a) of clause (1) of Part II of the same Schedule, after the words "six months" the words "except as provided in clause (c) and clause (n) of Part I" shall be inserted.

(4) In clause (3) of Part II of the same Schedule, after the words "negotiable security" the following brackets and words shall be inserted, namely:—

"(not being a security in which a trustee may invest trust money under section 20 of the Indian Trusts Act, 1882 (II of 1882),"

and for the words "six months", in both places where they occur, the following words shall be substituted, namely:—

"nine months if a bill drawn for the purpose of financing seasonal agricultural operations and six months in other cases".

Amendment of regulation 9, Schedule II, Act XLVII of 1920.

16. In regulation 9 in Schedule II to the said Act (which Schedule is hereinafter referred to as the said Schedule), for the words "Central Board" the word "Bank" shall be substituted.

Amendment of regulation 10, Schedule II, Act XLVII of 1920.

17. In regulation 10 in the said Schedule, after the words "has a lien" the following shall be inserted, namely:—

"or any transfer of shares to any person who is a minor or has been found by a Court of competent jurisdiction to be of unsound mind or to or in the name of any firm."

Substitution of new regulation for regulation II, Act XLVII of 1920.

18. For regulation 11 in the said Schedule, the following regulation shall be substituted, namely:
Deceased shareholders.

"11. The executors or administrators of a deceased sole holder of a share, the holder of a succession certificate issued under Part X of the Indian Succession Act, 1925, in respect of the share, and a person in whose favour a valid instrument of transfer of the share was executed by the deceased holder during his lifetime, shall be the only persons who may be recognised by the Bank as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor and, on the death of the last survivor, his executors or administrators or any person who is the holder of a succession certificate in respect of such survivor's interests in the share, and a person in whose favour a valid instrument of transfer of the share was executed by such survivor during his lifetime, shall be the only persons who may be recognised by the Bank as having any title to the share."

Amendment of regulation 12, Schedule II, Act XLVII of 1920.

19. In regulation 12 in the said Schedule,

(a) after the word "shareholder" where it first occurs, the words "or in consequence of a transfer by a deceased shareholder during his lifetime" shall be inserted;

(b) after the words "have the right" the words "subject to the provisions of regulation 10," shall be inserted; and

(c) the words beginning with "but the Bank shall" and ending with "before the death or insolvency" shall be omitted.

Amendment of regulation 19, Schedule II, Act XLVII of 1920.

20. In regulation 19 of the said Schedule, the words "and with the previous sanction of the Governor General in Council" shall be omitted, and after the words "increase or" the words "with the previous sanction of the Governor General in Council," shall be inserted.

Amendment of Regulation 23, Schedule II, Act XLVII of 1920.

21. In regulation 23 in the said Schedule, in sub-regulation (1), for the words "statement of the affairs" the words "balance-sheet" shall be substituted, and in sub-regulation (2), for the words "a Managing Governor" the words "the Managing Director or Deputy Managing Director" shall be substituted.

Substitution of new regulation for regulation 24, Schedule II, Act XLVII of 1920.

22. For regulation 24 in the said Schedule the following regulation shall be substituted, namely:—
Special meetings.

"24. (1) The Central Board shall convene a special meeting on the requisition of any three Directors or of not less than one hundred shareholders holding shares whether fully paid up or otherwise of the aggregate amount of not less than five hundred thousand rupees, upon which all calls or other sums due have been paid, if such requisition is signed by the requisitionists and addressed to the Managing Director or Deputy Managing Director and contains a statement of the object of the proposed meeting.

(2) The requisition may consist of several documents in like form, each signed by one or more of the requisitionists.

(3) Sixty days' previous notice of any such meeting shall be given by the Central Board under the hand of not less than three Directors, and such notice shall state the purpose for which the meeting is convened and the time and place of such meeting, and shall be advertised in the Gazette of India and in not less than three daily newspapers of which one shall be a newspaper published in the vernacular:

Provided that not less than three months' previous notice shall be thus given of any special meeting held for the purpose of increasing or reducing the capital of the Bank.

(4) The place of such meeting shall be the place where the head office of the Bank is situated at the time of the meeting.

(5) If a Central Board does not proceed within 21 days from the date of deposit of the requisition referred to in sub-section (1) and (2) to cause a meeting to be called, the requisitionists, or a majority of them in value, may themselves call the meeting, but in either case any meeting so called shall be held within three months from the date of deposit of the requisition."

Amendment of regulation 25, Schedule II, Act XLVII of 1920.

23. In sub-regulation (2) of regulation 25 in the said Schedule, for the word "Governors" the word "Directors" shall be substituted.

Amendment of regulation 26, Schedule II, Act XLVII of 1920.

24. In sub-regulation (1) of regulation 26 in the said Schedule, for the word "Governor" the word "Director" shall be substituted.

Amendment of regulation 36, Schedule II, Act XLVII of 1920.

25. In regulation 36 in the said Schedule, after the words "power of authority," the following words shall be inserted, namely:—

"or, in the case of a power of attorney previously deposited and registered with any local head office, a certificate of the secretary of such local head office as to such deposit and registration."

Amendment of regulation 38, Schedule II, Act XLVII of 1920.

26. In regulation 38 in the said Schedule, for the words "Governors, Managing Governors" the words "Director, the Managing Director or Deputy Managing Director" shall be substituted.

Amendment of regulation 39, Schedule II, Act XLVII of 1920.

27. In the heading to regulation 39 in the said Schedule, for the word "Governors" the word "Directors" shall be substituted, and in that regulation,—

(a) in sub-regulation (1), for the word "Governor" the word "Director" shall be substituted, and in the proviso, the words "or appointed" shall be omitted;

(b) in sub-regulation (2), for the word "Governor" the word "Director" shall be substituted, and in the proviso, for the words, brackets and figures "Governor under the provision of clause (iii)" the words, brackets and figures "Director under the provision of clause (iv)" shall be substituted, and for the words "and the office of a Governor" the words "and the office of a Director" shall be substituted; and

(c) in sub-regulation (3), for the words "a Local Board or of the Central Board and a Local Board" the words "of the same Local Board" shall be substituted.

Amendment of regulation 40, Schedule II, Act XLVII of 1920.

28. In the heading to regulation 40 in the said Schedule, for the word "Governors" the word "Directors" shall be substituted, and in that regulation, for the word "Governor", where it first occurs, the word "Director" shall be substituted, and for the brackets and words "(other than a Governor nominated or appointed by the Governor General in Council)" the brackets and words "(other than a Director nominated by the Governor General in Council)" shall be substituted.

Amendment of regulation 42, Schedule II, Act XLVII of 1920.

29. In regulation 42 in the said Schedule, for the words "a Managing Governor", wherever they occur, the words "the Managing Director or Deputy Managing Director" shall be substituted and for the word "Governors," in both places where it occurs, the word "Directors" shall be substituted; and in sub-regulation (1), for the word "three" the word

"four" shall be substituted, and for the words "at every local head office established by this Act" the following shall be substituted, namely:—

"at each of the local head offices established at Calcutta, Bombay and Madras:

Provided that not less than four meeting shall be convened by the Managing Director or Deputy Managing Director in every year."

Amendment of regulation 44, Schedule II, Act XLVII of 1920.

30. (1) For sub-regulation (1) of regulation 44 in the said Schedule the following sub-regulation shall be substituted, namely:—

"(1) At the first meeting of the Local Board which takes place after the first meeting of the Central Board in each year, the Local Board shall select from among its members a president and a vice-president and the elected Director referred to in clause (ii) of sub-section (1) of section 28. They shall continue in their respective offices until the first meeting of the Local Board after the first meeting of the Central Board in the following year, and, whenever the office of president or vice-president or of such elected Director becomes vacant the Local Board shall at its next meeting elect a successor who shall hold office for the unexpired portion of the period for which his predecessor was appointed."

(2) In sub-regulation (2) of the same regulation, after the words "Local Board" the words "at all general or special meetings held in the town where the Local Board is established" shall be inserted, and in the proviso, for the word "themselves" the words "the members of the Local Board present" shall be substituted.

Amendment of regulations 46, 47 and 48, Schedule II, Act XLVII of 1920.

31. In regulation 46, 47 and 48 in the said Schedule, for the words "Governors" and "Governor", wherever they occur, the words "Directors" and "Director" shall be substituted, respectively.

Amendment of regulation 49, Schedule II, Act XLVII of 1920.

32. In regulation 49 in the said Schedule,—

(a) in sub-regulation (1), for the word "Governors" the word "Directors" shall be substituted, and for the words "a Managing Governor" the words "the Managing Director or Deputy Managing Director" shall be substituted; and

(b) in sub-regulation (5), after the word "secretary" the words "or deputy secretary" shall be inserted.

Amendment of regulation 50, Schedule II, Act XLVII of 1920.

33. In clause (b) of regulation 50 in the said Schedule, after the word "servants" the following shall be inserted, namely:

"and to grant gratuities or other financial assistance, either temporary or permanent, to widows, children or other dependants of deceased officers or servants."

Amendment of regulation 51, Schedule II, Act XLVII of 1920.

34. In regulation 51 in the said Schedule, for the word "Governors" the words "Director and

Deputy Managing Director", and for the word "officers" the word "employees" shall be substituted, and after the words "business of the Bank;" the word "and" shall be omitted and to the regulation as so amended the following words shall be added, namely:—

"and to execute proxies to vote at meetings on behalf of shareholders from whom the Bank holds general powers of attorney".

Amendment of regulation 52, Schedule II, Act XLVII of 1920.

35. In regulation 52 of the said Schedule, for the word "Governor" the word "Director" shall be substituted.

Amendment of regulation 54, Schedule II, Act XLVII of 1920.

36. In regulation 54 in the said Schedule, in sub-regulation (2) for the word "Governors" the word "Directors" shall be substituted, and for sub-regulation (3) the following sub-regulation shall be substituted, namely:—

"(3) The statement of the balance shall contain the particulars and shall be in the form required by section 132 of the Indian Companies Act, 1913, and the provisions of that section and of section 136 of the same Act, shall apply to the Bank in like manner as they apply to a banking company."

Amendment of regulation 58, Schedule II, Act XLVII of 1920.

37. In regulation 58 in the said Schedule,—
- (a) in sub-regulation (1), for the word "Governor" the word "Director" shall be substituted; and
 - (b) in the proviso to sub-regulation (2), for the words "a special meeting shall be called for the purpose of supplying the same" the words "the vacancy may be filled by the Central Board" shall be substituted.

Amendment of regulation 60, Schedule II, Act XLVII of 1920.

38. In sub-regulation (1) of regulation 60 in the said Schedule, for the words "any Governor" the words "any Director" shall be substituted.

Insertion of new regulation 60A, in Schedule II, Act XLVII of 1920.

39. After regulation 60 in the said Schedule the following regulation shall be inserted, namely:—
Liquidation.

"60A. Notwithstanding anything contained in this Act or in section 271 of the Indian Companies Act, 1913 (VII of 1913), if the shareholders of the Bank pass a special resolution that the Bank be wound up voluntarily under the provision of the Indian Companies Act, 1913 (VII of 1913), the Bank shall be wound up in accordance with the provisions of that Act with regard to the voluntary winding up of a company:

Provided that, for the purposes of this section, no such special resolution shall be deemed to have been passed unless at least one-third of the shareholders holding at least one-half of the paid-up capital of the Bank for the time being be present in person or by proxy and a majority poll by open voting in favour of the said resolution and such resolution is thereafter confirmed by a majority of the shareholders at a subsequent special meeting held at an interval of not less than two months or more than three months from the date of the meeting at which the resolution was first passed."

Substitution of new regulation for regulation 62, Schedule II, Act XLVII of 1920.

40. For regulation 62 in the said Schedule the following regulation shall be substituted, namely:—

Absence of registered address.

"62. A shareholder who has no registered address in India and has not supplied to the Bank an address for the giving of notices to him shall not be entitled to any notice, notwithstanding anything contained in this Act."

Temporary saving of existing Central Board.

41. Notwithstanding any amendment made in the said Act by this Act in regard to the manner in which the Central Board shall be constituted, the Central Board existing at the commencement of this Act shall, until it has been re-established in accordance with the said Act as amended by this Act, continue to transact business and shall have all the powers of the Central Board under the said Act as so amended.

24-25 GEORGE V.

CHAP. 43.

An Act to incorporate the Bank of Canada.

[Assented to 3rd July, 1934.]

Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production; trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion: Therefore, His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

SHORT TITLE

1....This Act may be cited as the *Bank of Canada Act*.

INTERPRETATION

2. In this Act unless the context otherwise requires:—

- (a) "Board of Directors" or "Board" means the Board of Directors of the Bank of Canada;
- (b) "chartered bank" means a bank to which the Bank Act applies;
- (c) "director" means a member of the Board of Directors other than the Governor or the Deputy Governor;
- (d) "Dominion notes" means notes payable to bearer on demand issued and outstanding, which on the day on which the Bank of Canada is authorised to commence business, constitute a direct liability of the Dominion of Canada;
- (e) "meeting" means a special or general meeting of the shareholders;
- (f) "Minister" means the Minister of Finance;
- (g) "notes" means notes of the Bank of Canada payable to bearer on demand and intended for circulation;
- (h) "Receiver General" means the Receiver General of Canada;
- (i) "the Bank" means the Bank of Canada;
- (j) "Treasury Board" means the Treasury Board as constituted by the Department of Finance and Treasury Board Act.

CONSTITUTION OF THE BANK.

3. (1) There shall be established a bank to be called the Bank of Canada.

(2) When the capital stock of the Bank has been subscribed as hereinafter provided, the Minister shall give public notice of the fact in the *Canada Gazette* and on the publication of such notice the shareholders shall become a body corporate.

4. (1) The head office of the Bank shall be in the city of Ottawa.

(2) The Bank may establish branches and agencies and appoint agents in Canada and may also, with the approval of the Governor in Council, establish branches and appoint agents elsewhere than in Canada.

5. (1) The Bank shall be under the management of a Board of Directors composed of a Governor, a Deputy Governor and seven directors. There may also be an Assistant Deputy Governor who shall not as such be a member of the Board.

(2) In addition to the Members of the Board as constituted by subsection one of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being, shall be, by virtue of his office or of such nomination, as the case may be, a member of the Board, but shall not have the right to vote.

6. (1) The Governor and Deputy Governor shall be men of proven financial experience and each shall devote the whole of his time to the duties of his office.

(2) No person shall hold office as Governor or Deputy Governor or Assistant Deputy Governor, who,—

- (a) is not a British subject; or
- (b) is a member of either House of Parliament or of a Provincial Legislature; or
- (c) is employed in any capacity in the public service of Canada or of any Province of Canada or holds any office or position for which any salary or other remuneration is payable out of public moneys; or
- (d) is a director, officer or employee of any other bank or financial institution or has an interest as a shareholder in any bank or other financial institution; or
- (e) has reached the age of seventy-five years.

MANAGEMENT

7. (1) The Governor of the Bank shall be the chief executive officer and shall on behalf of the Board have the direction and control of the business of the Bank, with authority to act in connection with the conduct of the business of the Bank in all matters which are not by this Act or by the by-laws of the Bank specifically reserved to be done by the Board or by the Executive Committee or by a meeting of shareholders.

(2) The Deputy Governor and the Assistant Deputy Governor shall perform such duties as are assigned by the Board.

(4) In the event of absence or incapacity of both the Governor and the Deputy Governor, the Board of Directors shall authorize the Assistant Deputy Governor or one of the members of the Board to act as the Governor for the time being, but no such person shall have authority to act as Governor for a period exceeding one month without the approval of the Governor in Council.

8. (1) The Governor, Deputy Governor and Assistant Deputy Governor shall each be appointed as hereinafter provided for a term of seven years or, in the case of the first Governor, Deputy Governor and Assistant Deputy Governor, for such shorter period as the Governor in Council may determine.

(2) The first Governor, Deputy Governor and Assistant Deputy Governor shall be appointed and their salaries shall be fixed by the Governor in Council and thereafter appointments shall be made by the directors with the approval of the Governor in Council.

(3) Except as provided in the next preceding subsection the Governor, Deputy Governor and Assistant Deputy Governor shall, subject to the approval of the Governor in Council, receive such

salaries as the directors from time to time determine, but no such remuneration shall be in the form of a commission or be computed by reference to the income or profits of the Bank.

(4) The Governor, the Deputy Governor and the Assistant Deputy Governor shall on the expiry of their terms of office be eligible for re-appointment.

(5) The Governor, Deputy Governor and Assistant Deputy Governor shall each hold office for the aforesaid term during good behaviour.

DIRECTORS.

9. (1) Notwithstanding anything contained in section ten of this Act, the first, or provisional, directors of the Bank shall be the following members of the Civil Service of Canada, namely, The Deputy Minister of Finance; The Counsellor of the Department of External Affairs; The Comptroller, Government Guarantee Branch; The Comptroller of the Treasury; The Comptroller of Currency; The Director of Estimates and Assistant Secretary to the Treasury Board, and The Solicitor to the Treasury, who shall remain in office until replaced by directors duly elected in their stead at the first general meeting of shareholders. The said first or provisional directors shall serve without remuneration.

(2) At the first general meeting of shareholders aforesaid, directors shall be elected for terms to run as follows: one until the third annual general meeting, two until the fourth annual general meeting, two until the fifth annual general meeting and two until the sixth annual general meeting respectively.

(3) Thereafter directors shall be elected by the shareholders at annual general meetings and shall hold office for terms of five years.

(4) In the event of a vacancy amongst the directors the Board shall appoint a qualified person to hold office until the next annual general meeting, when the shareholders shall elect a person to fill the vacancy, for the remainder of the term.

(5) The directors shall on the expiry of their terms of office be eligible for re-election.

10. (1) No person except a shareholder who is the registered owner of ten shares of the capital stock and who has paid all calls thereon shall be elected or shall continue to hold office as a director.

(2) The directors shall be selected from diversified occupations, but no person shall be eligible to be a director who is a director, officer or employee of a chartered bank and any person nominated for election as a director who is a shareholder of a chartered bank shall if elected divest himself of ownership of his shares with three months of the date of his election and shall not thereafter during the period of his office have an interest, either directly or indirectly, as a shareholder in a chartered bank.

(3) No person shall be elected or shall continue to hold office as a director, who—

(a) is not a British subject ordinarily resident in Canada; or

(b) is employed in any capacity in the public service of Canada or of any Province of Canada or holds any office or position for which any salary or other remuneration is payable out of public moneys or

(c) has reached the age of seventy-five years.

(4) If any director, in the opinion of the Board, becomes permanently incapacitated, he may be removed from office by resolution of the Board approved by the Governor in Council.

11. The directors shall be entitled to receive for attendance at directors' meetings and executive committee meetings, such fees as may be fixed by the Board and approved at a general meeting, but the aggregate amount of the fees paid to all directors, exclusive of expenses, shall not exceed twenty thousand dollars in any year.

12. The members of the Board shall select a chairman of the Board from amongst their number.

EXECUTIVE COMMITTEE

13. (1) There shall be an Executive Committee of the Board, consisting of the Governor, the Deputy Governor and one director selected by the Board.

(2) In addition to the Members of the Executive Committee as constituted by subsection one of this section, the Deputy Minister of Finance or, in case of his absence or incapacity at any time, such other officer of the Department of Finance as the Minister may nominate for the time being shall be by virtue of his office or of such nomination, as the case may be, a member of the Executive Committee, but shall not have the right to vote.

(3) The Executive Committee shall be competent to deal with any matter within the competence of the Board but every decision of the committee shall be submitted to the Board at its next meeting.

(4) Except when the Board is in session the Executive Committee shall determine the minimum rates at which the Bank is prepared to discount or rediscount bills or to make advances and the Bank shall at all times make public the rates at which it is prepared to discount or rediscount bills or to make advances.

(5) The Executive Committee shall keep full minutes of its proceedings, which shall be submitted to the Board at its next meeting.

14. No action or decision of the Board of Directors, or of the Executive Committee, shall have any effect unless the same is concurred in by the Governor, or in his absence or incapacity, by the Deputy Governor.

BANK STAFF

15. (1) Such other officers, clerks and employees may be employed as in the opinion of the Executive Committee may be necessary.

(2) In the case of officers, clerks and employees of the Bank who at the date of appointment were officers, clerks or employees of the Civil Service of Canada, the salaries to be paid by the Bank shall be at rates not less than the rates which such persons were receiving in the Civil Service.

(3) Any officer, clerk or employee mentioned in subsection two of this section who was a contributor under the provisions of the *Civil Service Superannuation Act*, chapter twenty-four of the Revised Statutes of Canada, 1927, may continue as a contributor under the provisions of the said Superannuation Act for a period not exceeding one year after the date of his appointment by the Bank, and shall during such period continue his contributions to the Civil Service Superannuation Fund and the Bank shall during the said period contribute to the said Fund a like amount. Subject to the provisions of subsection four of this section, at the expiration of one year after the date of the appointment by the Bank of any such officer, clerk or employee his benefits under the provisions of the said Superannuation Act shall be calculated and determined as of the date of the expiration of the said year as if he had at that time retired from the Civil Service by reason of abolition of his office, in which case the enjoyment of the said benefits shall be deferred until such time as he leaves the service of the Bank.

(4) Upon the said officer, clerk or employee becoming a contributor to or participant in any pension scheme which the Bank may establish he may elect either—

(i) to have his benefits under the provisions of the said Superannuation Act calculated and determined as at the date of his becoming a contributor to or participant in any pension scheme which the Bank may establish or at the expiration of one year from the date of his appointment as aforesaid, whichever shall first occur; in which case the enjoyment of the said benefits shall be deferred until such time as he leaves the service of the Bank; or

(ii) to waive his right to any payment or benefit under the said Superannuation Act and in that case his period of service in the Civil Service shall be counted as service with the Bank for the purposes of the Bank's pension scheme to the extent that such service would have counted under the said Superannuation Act. The Governor in Council and the Bank may enter into an agreement as to the amount to be paid to the Bank with reference to the assumption by the Bank of liability under its pension scheme with respect to the said period of service in the Civil Service. The Minister may pay the amount agreed upon out of any unappropriated moneys in the Consolidated Revenue Fund, which shall be recorded as a payment from the said Superannuation Fund, and the Bank shall pay the said amount into its Pension Fund.

(5) The Governor in Council may make such regulations as may be deemed necessary to give effect to the provisions of subsections three and four of this section.

(6) The Board may by by-law establish a pension fund for the officers, clerks and employees of the Bank and their dependents, and may contribute to it out of the funds of the Bank, and such pension fund shall be invested in securities in which a trust company may invest under the Trust Companies Act.

16. Every director, officer, clerk and employee of the Bank shall before entering upon his duties take before a Justice of the Peace or a Commissioner for taking affidavits, an oath of fidelity and secrecy in the form prescribed in Schedule A to this Act.

CAPITAL AND SHARES

17. (1) The capital of the Bank shall be five million dollars but may be increased from time to time pursuant to a resolution passed by the Board and ratified at a meeting of shareholders and approved by the Parliament of Canada.

(2) The capital shall be divided into shares of fifty dollars each, represented by share certificates, which shall be offered by the Minister at not less than par for public subscription in Canada and shall be allotted by him to persons eligible to hold shares, in such manner as he may in his discretion determine.

(3) In the event of any of the shares (whether of the original or any subsequent issue) not being subscribed for by the public within a reasonable period the Minister shall subscribe for such shares, and notwithstanding any other provision of this Act, payment for the same shall be made out of the Consolidated Revenue Fund.

(4) The Minister shall from time to time offer shares held by him or shares representing any increase of capital for subscription by the public at not less than par, whenever in the opinion of the Minister it is desirable to do so.

(5) The sum of twelve dollars and fifty cents, or such greater amount as the Minister may determine, shall be payable in respect of each share on application, and the balance shall be paid in one or more instalments within such period thereafter, not exceeding twelve months, as may be fixed by the Minister.

(6) Shares held by the Minister shall be registered in his name and he shall be entitled to vote in respect of such shares.

(7) The liability of every shareholder shall be limited to the amount for the time being unpaid in respect of shares held by such shareholder.

(8) Shares may be held only by or for the beneficial ownership of British subjects ordinarily resident in Canada, or corporations organized under the laws of the Dominion of Canada or of any province and controlled by British subjects ordinarily resident in Canada but not more than fifty shares shall be held by or for the benefit of any one person other than the Minister.

(9) The Bank shall open and maintain one or more share registry offices at places to be designated by the Board.

18. (1) No shares of the capital stock of the Bank shall be held by or for the benefit of any chartered bank or any director, officer, clerk or employee of any such bank, and no chartered bank shall have any interest, directly or indirectly or through the medium of any officer, clerk, employee or other person, in any share of the Bank.

(2) On the last day of January in each year the General Manager of every chartered bank shall transmit to the Minister a statement in the form of Schedule B to this Act that he has duly inquired and has found that no share of the Bank nor any interest therein is or has been during the preceding year held by or for the chartered bank contrary to the provisions of this section, or as the case may be.

19. If shares are held by a person not eligible to hold shares or if shares in excess of fifty are held by one person, the Governor shall require the shareholder to transfer or dispose of the shares or the shares in excess of fifty, as the case may be. If a shareholder fails to comply with this requirement within three months, the shares in question shall *ipso facto* on the expiration of three months from the mailing at Ottawa by registered mail of such requirement in the form of a notice in writing by the Minister to such shareholder be forfeited to the Crown and shall be registered in the name of the Minister without further proceedings or formality, and may be sold by the Minister and the proceeds of any such sales shall be deposited in the Consolidated Revenue Fund.

COMMENCEMENT OF BUSINESS

20. (1) Whenever the capital stock of the Bank has been subscribed and payment in money made to the amount of twelve dollars and fifty cents per share, or such larger amount as the Minister determines, the Minister, when authorized by the Governor in Council, may issue a certificate authorizing the Bank to commence business on a date to be fixed therein.

(2) The Bank shall not issue notes or otherwise engage in business until the date fixed in such certificate except to do what is necessary or advisable to enable it to commence business on the said date.

BUSINESS AND POWERS OF THE BANK

21. (1) The Bank may—

(a) buy and sell gold, silver, nickel and bronze coin and gold and silver bullion ;

(b) effect transfers of funds by telegram, letter or other method of communication, and buy and sell transfers effected by such means, trade acceptances, bankers' acceptances, bankers' drafts, and bills of exchange drawn in or on places outside of Canada and having a maturity not exceeding ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace, from the date of acquisition by the Bank ;

(c) buy and sell or rediscount short term securities issued or guaranteed by the Dominion of Canada or any province, having a maturity not exceeding two years from the date of acquisition by the Bank ;

(d) buy and sell securities issued or guaranteed by the Dominion of Canada or any province, having a maturity exceeding two years from the date of acquisition by the Bank but the Bank shall at no time hold such securities (exclusive of securities transferred to the Bank under paragraph (c) of subsection three of section twenty-five) of a par value in excess of three times the amount of the paid-up capital of the Bank ;

(e) buy and sell short term securities issued by the United Kingdom, any British Dominion, the United States of America, or France, having a maturity not exceeding six months from the date of acquisition by the Bank ;

(f) buy and sell securities issued by the United Kingdom or the United States of America, having a maturity exceeding six months from the date of acquisition by the Bank, but the Bank shall at no time hold such securities in excess of one-half of the amount of the paid up capital of the bank :

(g) buy and sell or rediscount bills of exchange and promissory notes endorsed by a chartered bank drawn or issued in connection with the production or marketing of goods, wares and merchandise as defined in *The Bank Act*, excepting those mentioned in paragraph (h) of this subsection, and having a maturity not exceeding ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace, from the date of acquisition by the Bank ;

(h) buy and sell or rediscount bills of exchange and promissory notes endorsed by a chartered bank, drawn or issued in connection with the production or marketing of products of agriculture, the forest, the quarry and mine, or the sea, lakes and rivers, as defined in *The Bank Act*, and having a maturity not exceeding one hundred and eighty days excluding days of grace from the date of acquisition by the Bank : Provided that the Bank may by regulation limit to a percentage of its total assets the amount of such paper having a maturity in excess of ninety days excluding days of grace but not exceeding one hundred and eighty days excluding days of grace, from the date of acquisition by the Bank ;

(i) make loans or advances for periods not exceeding six months to chartered banks or to banks incorporated under the *Quebec Savings Banks Act* on the pledge or hypothecation of the foregoing classes of securities, bills of exchange or promissory notes, or of Canadian municipal securities, or of securities issued by a school corporation or parish trustees, or of securities issued pursuant to the statutes of a province making provision for the payment thereof and the interest thereon by the province, or of gold or silver coin or bullion, or documents to title relating thereto ;

(j) make loans or advances for periods not exceeding six months to the Dominion government or the government of any province on the pledge or hypothecation of readily marketable securities issued or guaranteed by the Dominion of Canada or any province ;

(k) make loans to the Dominion Government or the government of any province, but such loans outstanding at any one time shall not, in the case of the Dominion Government, exceed one-third of the estimated revenue of such government for its fiscal year, and shall not in the case of any provincial government exceed one-fourth of such government's estimated revenue for its fiscal year ; and such loans shall be repaid before the end of the first quarter after the end of the fiscal year of such government ;

(l) for the purpose of its open market operations, buy and sell in the open market from or to any person, either in or outside of Canada, securities, cable transfers, bankers' acceptances, and bills of exchange of the kinds and maturities defined in, and subject to the limitations, if any, contained in, paragraphs (b), (c), (d), (e), (g) and (h) of this subsection with or without the endorsement of a chartered bank ;

(m) accept from the Dominion Government or the government of any province or from any chartered bank or from any bank incorporated

under the *Quebec Savings Banks Act* deposits which shall not bear interest ;

(n) open accounts in a central bank in any other country or in the Bank for International Settlements and act as agent, depository or correspondent of such other central banks or the Bank for International Settlements ;

(o) acquire by purchase or lease and hold real or immovable property for the actual use and occupation of the Bank in connection with its business and sell and dispose of the same ;

(p) do anything ancillary to all or any of the above purposes.

(2) The Bank may acquire from any chartered bank and hold any warehouse receipt, bill of lading and other security, held by such chartered bank pursuant to the provisions of *The Bank Act*, as collateral security for the repayment of any bill of exchange or promissory note acquired by the Bank under the provisions of the next preceding subsection ; and the Bank may exercise every right and remedy in respect of such collateral security as could have been exercised by the chartered bank aforesaid.

22. The Bank shall not, except as authorized by this Act,

(a) engage or have a direct interest in any trade or business whatsoever ;

(b) purchase its own stock or the shares of any other bank except the Bank for International Settlements or make loans upon the security thereof ;

(c) lend or make advances upon the security of any real or immovable property ; provided that in the event of any claims of the Bank being in the opinion of the Board endangered, the Bank may secure itself on any real property of the debtor or any other person liable and may acquire such property, which shall, however, be resold as soon as practicable thereafter ;

(d) make loans or advances without security ;

(e) accept deposits for a fixed term or pay interest on any moneys deposited with the Bank ;

(f) allow the renewal of maturing bills of exchange, promissory notes or other similar documents purchased or discounted by or pledged to the Bank ; provided that the Board may make regulations authorizing in special circumstances not more than one renewal of any such bill of exchange, promissory note or other document.

23. (1) The Bank shall act as fiscal agent of the Government of Canada without charge and, subject to the provisions of this Act, by agreement, may also act as banker or fiscal agent of the government of any province.

(2) The Bank, if and when required by the Minister so to do, shall act as agent for the Government of Canada in the payment of interest and generally in respect of the management of the public debt of Canada.

(3) The Bank shall not make any charge for cashing any cheque drawn on the Receiver General or on his account or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund or upon any cheque drawn in favour of the Government of Canada or any department thereof and tendered for deposit in the Consolidated Revenue Fund.

NOTE ISSUE

24. (1) On and after the day on which the Bank is authorized to commence business the Bank shall, except as provided in *The Bank Act*, have the sole right to issue notes payable to bearer on demand and intended for circulation in Canada and may, subject to the provisions of section twenty-six of this Act, issue such notes to any amount. Such notes shall be legal tender, and shall be the first charge upon the assets of the Bank.

(2) It shall be the duty of the bank to make-

adequate arrangements for the issue of its notes at its head office and at its branch offices and agencies in Canada, and to supply such notes as required for circulation in Canada.

(3) Notes of the Bank shall be in such denominations as the Governor in Council from time to time determines and shall be signed by two persons nominated by the Board. Facsimiles printed from engravings may be substituted for signatures in the proper handwriting of one or both persons nominated to sign, but if both of the signatures are printed then a distinguishing device and serial number shall be printed on each note after the notes have been delivered by the printer and engraver to the Bank and while in the custody of the officers of the Bank.

(4) The form and material of the notes shall be subject to approval by the Minister: Provided that notes in either the English or the French language shall be available as required.

(5) The Bank shall not re-issue notes which are torn, partially defaced or soiled and provision may be made by the Bank for the disinfection and sterilization of notes before re-issue.

REDEMPTION OF NOTES.

25. (1) The Bank shall sell gold to any person who makes demand therefor at the head office of the Bank and tenders the purchase price in legal tender, but only in the form of bars containing approximately four hundred ounces of fine gold.

(2) The Governor in Council, from time to time and for such period as he may deem desirable, may suspend the operation of the next preceding subsection and remove such suspension.

(3) On the day on which the Bank is authorized to commence business the Minister shall transfer to the Bank

(a) gold held by the Minister for redemption of Dominion notes;

(b) silver held by the Minister for redemption of Dominion notes valued at the market price of the fine silver content thereof;

(c) securities of the Dominion of Canada bearing interest at three per centum per annum, payable half-yearly and having a maturity not exceeding five years, valued at par;

to the amount of Dominion notes outstanding on that day, except notes issued under the authority of the *Finance Act*.

(4) On and after the day on which the Bank is authorized to commence business the Bank shall be responsible for the redemption of all Dominion notes then issued and outstanding and such notes shall be and continue to be legal tender.

(5) On the day on which the Bank is authorized to commence business, the chartered banks shall repay all advances then outstanding under the *Finance Act*.

(6) The Minister, for the purposes of paragraph (c) of subsection three of this section, is authorized to issue securities under the provisions of *The Consolidated Revenue and Audit Act, 1931*, and payment of the principal of and interest on such securities shall be made out of the Consolidated Revenue Fund.

RESERVES.

26. (1) The Bank shall always maintain a reserve, as hereinafter provided, as security against its outstanding notes and deposit liabilities.

(2) The reserve required by this section to be maintained shall consist of gold coin and bullion in the unrestricted ownership of the Bank equal to an amount not less than twenty-five per centum of the notes and deposit liabilities aforesaid; and may in addition include

(a) silver bullion received from the Minister under the next preceding section or purchased under the authority of subsection four hereof,

valued at the market price of the fine silver content thereof; and

(b) foreign exchange, which shall mean

(i) balances with the Bank of England, the Bank for International Settlements, the Federal Reserve Bank of New York, and a central bank in any country whose currency by law and in fact is convertible on demand at a fixed price into exportable gold;

(ii) Treasury bills or other obligations of the United Kingdom or the United States of America having a maturity not exceeding three months from the date of acquisition by the Bank;

(iii) Bills of exchange having a maturity not exceeding ninety days excluding days of grace, or not exceeding ninety days after sight excluding days of grace from the date of acquisition by the Bank payable in London or New York or in a country whose currency by law and in fact is convertible on demand at a fixed price into exportable gold,

less any liabilities of the Bank payable in the currency of the United Kingdom, the United States of America, or any country, whose currency is by law and in fact convertible on demand at a fixed price into exportable gold.

(3) At the request in writing of the Board, the Governor in Council may suspend the operation of this section insofar as it requires the Bank to maintain a reserve of gold equal to an amount not less than twenty-five per centum of its notes and deposit liabilities. Such suspension shall be for such period not exceeding sixty days as may be specified by the Governor in Council, but on the further request in writing of the Board may be extended from time to time for further periods not exceeding sixty days each, provided, however, that no such suspension shall continue for a period longer than one year without the sanction of Parliament.

(4) The Bank shall during the years 1935, 1936 and 1937 purchase and hold newly-mined Canadian silver as and when required so to do by the Minister but the Bank shall never be required to purchase more than 1,671,802 fine ounces in any year.

RESERVE OF CHARTERED BANKS.

27. (1) Every chartered bank shall on and after the day on which the Bank is authorized to commence business maintain a reserve of not less than five per centum of its deposit liabilities within Canada and such reserve shall consist of a deposit with the Bank and of notes of the Bank held by such bank.

(2) For the purposes of this section, every chartered bank shall make a return to the Bank to be signed by the chief accountant or acting chief accountant and by the general manager or acting general manager of such bank, showing the amount of its deposit liabilities within Canada and also the amount of its deposit with the Bank and the amount of the notes of the Bank held by such bank, at the end of each juridical day of the month last preceding the date of the return, and showing for the month the daily average amount of such deposit with the Bank and of the notes of the Bank held by such bank. Such return shall be delivered or transmitted to the Bank at the same time as the return to the Minister, pursuant to section one hundred and twelve of *The Bank Act*, is transmitted or delivered.

(3) The daily average amount of deposit liabilities within Canada for each chartered bank shall be the basis of determining the amount of the reserve to be maintained by such bank during the month next following the month in which such return was made.

(4) If any chartered bank knowingly makes default in complying with the requirements of this section, it shall be liable to a penalty at the rate of

ten per centum per annum of the amount of deficiency for each day of which there is a deficiency in the amount of the reserve maintained by the chartered bank, and such penalty shall be payable to the Bank and recoverable by it by civil action.

(5) For the purpose of this section the Bank may authorize the Inspector General of Banks or one of its own officers to make an inspection of the books, accounts and documents of any chartered bank, and the chartered bank shall give the Inspector General or such officer access to the books, accounts and documents of the bank for such purpose, and if the Inspector General or officer is obstructed or delayed in making an inspection the chartered bank shall be guilty of an offence and liable on summary conviction to a fine of one hundred dollars for each, and every day during which the obstruction or delay continues.

(6) In the event of the property and assets of the Bank being insufficient to pay its debts and liabilities, and if the Bank suspends payment of any of its liabilities, the deposit made hereunder by every chartered bank is hereby guaranteed, and the Governor in Council, on the recommendation of the Minister of Finance, shall authorize payment out of the Consolidated Revenue Fund of such moneys as may be necessary to implement such guarantee.

(7) Every bank incorporated under the *Quebec Savings Banks Act* shall maintain against its deposit liabilities such reserves in the form of notes of the Bank or deposits with the Bank or a chartered bank as may be deemed to be sufficient by the Bank and shall furnish such information as may be required by the Bank from time to time to satisfy it that such reserves are so maintained.

SURRENDER OF GOLD.

28. (1) Every chartered bank shall, on the day on which the Bank is authorized to commence business, transfer to the Bank all gold coin or bullion owned and held by it in Canada.

(2) The Governor in Council may from time to time thereafter require every chartered bank or every other person to transfer to the Bank any or all gold coin or bullion held in Canada which is owned by such chartered bank or by such other person; and the Governor in Council may authorize all measures deemed necessary or expedient to enforce any such transfer and to impose and recover penalties in respect of any neglect or refusal to make any transfer so required.

VALUATION OF GOLD.

29. Whenever gold is sold by, transferred to, held as reserve by, or deposited with the Bank pursuant to sub-sections one or three of section twenty-five, section twenty-six, or section twenty-eight of this Act, the value of the said gold shall be computed on the basis established by the *Currency Act* at the date of the relevant transaction.

30. Any profits resulting from the sale by the Bank of gold coin and bullion transferred to the Bank pursuant to subsection three of section twenty-five, or section twenty-eight of this Act, or from an increase in the value of such gold resulting from any change in the monetary standard of Canada shall be paid by the Bank to the Receiver General for the Consolidated Revenue Fund: Provided, however, that the aforesaid provisions of this section shall not apply in the case of gold transferred under subsection one of section twenty-eight, if the Governor in Council is satisfied that the said gold was at the time of the transfer being held by a chartered bank against liabilities elsewhere than in Canada, and in such case the said profit shall belong to the chartered bank.

PROFITS OF THE BANK.

31. The Bank shall establish a rest fund and after making such provision as the Board thinks

proper for bad and doubtful debts, depreciation in assets, pension funds and all such matters as are properly provided for by banks and after deducting an amount equal to four and one-half per centum of the paid-up capital which may be utilized for the payment of cumulative dividends at a rate of four and one-half per centum per annum, payable half-yearly, the ascertained surplus available from the operations of the Bank during each financial year shall be applied by the Board as follows:

(a) If the rest fund of the Bank is less than the paid-up capital, one-third of such surplus shall be allocated to the rest fund and the residue shall be paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund;

(b) If the rest fund is not less than the paid-up capital but is less than twice the paid-up capital, one-tenth of such surplus shall be allocated to the rest fund and the residue shall be paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund;

(c) If the rest fund is not less than twice the paid-up capital, the whole of such surplus shall be paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

AUDIT.

32. (1) For the purpose of auditing the affairs of the Bank, the Minister shall appoint two auditors, eligible to be appointed as auditors of a chartered bank, who shall continue to act as auditors until the first annual general meeting.

(2) The shareholders at each annual general meeting shall appoint two auditors, eligible to be appointed as auditors of a chartered bank, but no person shall be eligible for appointment if he or any member of his firm has been auditor for two successive years during the three next preceding years.

(3) If any vacancy occurs in the office of auditor of the Bank, notice thereof shall forthwith be given by the Bank to the Minister, who thereupon shall appoint some other auditor eligible to be appointed as an auditor of a chartered bank to serve until the next annual general meeting.

(4) No director or officer of the Bank and no member of a firm of auditors of which a director is a member shall be eligible for appointment as an auditor.

(5) The Minister may from time to time require the auditors to report to him upon the adequacy of the procedure adopted by the Bank for the protection of its creditors or shareholders and as to the sufficiency of their own procedure in auditing the affairs of the Bank; and the Minister may, at his discretion, enlarge or extend the scope of the audit, or direct that any other procedure be established or that any other examination be made by the auditors or by the Inspector-General of Banks as the public interest may seem to require.

(6) A copy of every report made by the auditors to the Bank under this section shall be transmitted to the Minister by the auditors at the same time as such report is transmitted to the Bank.

RETURNS.

33. (1) The Bank shall as soon as practicable after the close of business on Wednesday of each week, make up and transmit to the Minister in the form of Schedule C to this Act a statement of its assets and liabilities as at the close of business on that day.

(2) A copy of every such statement shall be published in the next succeeding issue of the *Canada Gazette*.

(3) The Bank shall also as soon as practicable after the close of business on Wednesday of each week, make up and transmit to the Minister a statement of the amount of its notes in circulation on each business day during the preceding seven day period.

(4) The Bank shall on or before the seventh day of each month make up and transmit to the Minister in the form of Schedule C to this Act a statement of its assets and liabilities on the last business day of the preceding month.

(5) Every return required under the last preceding subsection shall be accompanied by declarations which shall be a part of the return, and the declarations shall be in the form set forth in Schedule C to this Act, and shall be signed by the Chief Accountant or by the Acting Chief Accountant, and by the Governor or the person then acting as Governor, and by the Deputy Governor or the Assistant Deputy Governor or other principal officer next in authority to the Assistant Deputy Governor at the time at which the declaration is signed.

(6) The Governor in Council may from time to time, as he deems necessary, amend the form of Schedule C to this Act.

34. (1) The fiscal year of the Bank shall be the calendar year.

(2) Within six weeks after the end of each fiscal year, the Bank shall transmit to the Minister a statement of its accounts for the fiscal year, signed by the Governor, the Deputy Governor and the Chief Accountant of the Bank and certified by the Auditors, in the form prescribed by the by-laws of the Bank.

(3) A copy of the accounts so signed and certified shall be forthwith published in the *Canada Gazette*, and if Parliament is then sitting, shall within fourteen days after the receipt thereof by the Minister be laid before Parliament, or if Parliament is not sitting, it shall be laid before Parliament within fourteen days after the commencement of the next ensuing session thereof.

35. The Bank shall within sixty days after the end of each fiscal year transmit to the Minister a list of the names, addresses and descriptions of the shareholders of the Bank at the end of the year, and of the number of shares then held by each shareholder. Such list shall, if Parliament is then sitting, be laid before Parliament by the Minister within fourteen days after the receipt thereof, or if Parliament is not sitting, it shall be laid before Parliament within fourteen days after the commencement of the next ensuing session thereof.

METTINGS.

36. (1) The annual general meeting of shareholders shall be held on the last Tuesday of February in each year at the head office of the Bank.

(2) A special general meeting of the shareholders may be called at any time by the Board and shall be called by the Board whenever a request for such meeting is made in writing by not less than one hundred shareholders, holding not less than one thousand shares.

(3) Every shareholder shall have one vote for each share registered in his name for at least three months before the date of the meeting, but no person, other than the Minister shall vote for more than fifty shares.

(4) The voting of the shareholders shall, in the case of the election of directors, be by ballot. No person shall vote by proxy except that any shareholder may give to the Minister, in writing, instructions as to the manner in which he desires to vote on any business of the meeting. In any such case the Minister shall inform the scrutineers appointed at the meeting of the instructions so received and the scrutineers shall record the vote of each such shareholder in accordance with the instructions so given.

(5) Notice of every general meeting of shareholders shall be given to every shareholder in writing, and such notice shall be accompanied by notice of all business to be transacted at such meeting, including the names if any of persons nominated as directors, and no person shall be eligible to be

elected as a director unless notice of his nomination has been so given.

OFFENCES AND PENALTIES.

37. Every person who holds office or continues to hold office as Governor, Deputy Governor, Assistant Deputy Governor or director of the Bank, knowing that he is not eligible for such office, shall be guilty of an indictable offence and liable to imprisonment for not more than three years and not less than three months.

38. Every director, officer or auditor of the Bank who verifies any statement, account or list required to be furnished to the Minister pursuant to the provisions of this Act, or who has to do with the delivering or transmitting of the same to the Minister, knowing the same to be false in any material particular, shall be guilty of an indictable offence and liable to imprisonment for not more than five years and not less than six months.

39. Any officer of a chartered bank who transmits any statement to the Minister pursuant to the provisions of this Act or who has to do with preparing or transmitting the same to the Minister knowing the same to be false in any material particular, shall be guilty of an indictable offence and liable to imprisonment for not more than two years and not less than three months.

40. Any officer of the Bank or any officer of a chartered bank or any other person who fails or omits to comply with any provision of this Act shall be guilty of an offence and, unless otherwise provided by this Act, shall be liable on summary conviction to a fine of not less than one hundred dollars and not more than five hundred dollars.

LIQUIDATION OR WINDING UP.

41. No statute relating to the insolvency or winding-up of any corporation shall apply to the Bank and in no case shall the affairs of the Bank be wound up unless Parliament so provides; provided, however, that if provision is made for winding up the Bank the notes of the Bank outstanding shall be the first charge upon the assets and in no case shall the shareholders receive any payment in excess of the paid-up capital of the Bank and accrued dividends, if any.

ORGANIZATION EXPENSES.

42. All moneys required to be expended in connection with the organization of the Bank before the day on which the Bank is authorized to commence business not exceeding one hundred thousand dollars, or in connection with the issue of increased capital stock, shall be paid out of any unappropriated moneys in the Consolidated Revenue Fund, and shall be recoverable from the Bank as a debt due to the Crown at any time after the Bank has been authorized to commence business.

BY-LAWS.

43. (1) The Governor in Council shall make by-laws not repugnant to the provisions of this Act with respect to

(a) the keeping of stock books, the recording of subscriptions and the enforcement of payment by subscribers and shareholders of instalments of capital due to the Bank from such persons, and generally all questions relating to the obligations of the Bank to the shareholders and of the shareholders to the Bank;

(b) the transfer and transmission of shares;

(c) the declaration and payment of dividends;

(d) the calling of meetings of shareholders and of the Board and of the Executive Committee, and what number of persons shall constitute a quorum in each case, and how questions considered at such meetings shall be determined, and the nomination of directors and auditors,

and generally as to the procedure governing such meetings ; and such by-laws may provide for the nomination of directors before any annual general meeting and what constitutes such nomination ;

(e) the duties and conduct of officers, clerks and employees of the Bank ;

(f) the form of the annual statement of accounts ;

(g) generally as to the management and disposition of the, stock, property and undertakings of the Bank.

(2) The Board may with the approval of the Governor in Council amend or repeal such by-laws or make others with respect to the matters mentioned in subsection one hereof.

(3) Every by-law and every amendment or repeal thereof shall take effect when published in the *Canada Gazette*.

SCHEDULE A.

OATH OF FIDELITY AND SECRECY.

I, do solemnly swear that I will faithfully, truly and to the best of my judgment, skill and ability, execute and perform the duties required of me as a director (*officer or employee as the case may be*) of the Bank of Canada and which properly relate to any office or position in the said Bank held by me.

I further solemnly swear that I will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the Bank, nor will I allow any such person to inspect or have access to any books or documents belonging to or in the possession of the Bank and relating to the business of the Bank.

SCHEDULE B.

STATEMENT OF GENERAL MANAGER.

January 31st,

To The Honourable the Minister of Finance.

Pursuant to section eighteen of the *Bank of Canada Act*, I have duly inquired whether any shares of the capital stock of the Bank of Canada have at any time during the calendar year..... been held by or for the benefit of (*name of chartered bank*) contrary to the provisions of the *Bank of Canada Act*, and I have found that no shares were held by or for the benefit of (*name of chartered bank*) (*or as the case may be*).

.....

General Manager.

SCHEDULE C.

STATEMENT OF ASSETS AND LIABILITIES OF BANK OF CANADA AS AT 19

LIABILITIES—		
1. CAPITAL PAID UP ...	...	...
2. RESERVE FUND ...	...	...
3. NOTES IN CIRCULATION ...	...	...
4. DEPOSITS—		
(a) Dominion Government ...	...	...
(b) Provincial Governments ...	...	...
(c) Chartered banks ...	...	...
(d) Other ...	...	...
Total ...	...	...

5. LIABILITIES PAYABLE IN STERLING, U.S. AND FOREIGN GOLD CURRENCIES ...	...	...
6. ALL OTHER LIABILITIES ...	...	...
TOTAL ...	...	...

ASSETS—

1. RESERVE—		
Gold coin and bullion ...	...	...
Silver bullion ...	...	...
Reserve in Sterling funds ...	...	...
Reserve in U.S. funds ...	...	...
Reserve in funds of other countries on a gold standard ...	...	...
Total ...	...	...
2. SUBSIDIARY COIN ...		
3. BILLS DISCOUNTED—		
(a) Commercial Bills ...	...	...
(b) Agricultural Bills, etc. ...	...	...
(c) Dominion Government Treasury Bills ...	...	...
(d) Provincial Government Treasury Bills ...	...	...
Total ...	...	...
4. LOANS AND ADVANCES—		
(a) Dominion Government ...	...	...
(b) Provincial Governments ...	...	...
(c) Chartered Banks ...	...	...
Total ...	...	...
5. BILLS BOUGHT IN OPEN MARKET.		
6. INVESTMENTS—		
(a) Dominion Government short-term securities ...	...	...
(c) Other Dominion Government securities ...	...	...
(d) Other Provincial Government securities ...	...	...
(e) United Kingdom, other British Dominions or United States long term securities ...	...	...
Total ...	...	...
7. BANK PREMISES ...	...	...
8. ALL OTHER ASSETS ...	...	...
TOTAL ...	...	...

Ratio of Net Reserve (Item 1 of Assets less Item 5 of Liabilities) to Notes and Deposit Liabilities : per centum.

I declare that the foregoing return is correct according to the books of the Bank ;

E.F.,

Chief Accountant, or acting Chief Accountant as the case may be ;

We declare that the foregoing return is to the best of our knowledge and belief correct, and shows truly and clearly the financial position of the Bank, as required by section thirty-three of the *Bank of Canada Act*.

Place this day of , 19 .

A.B.,
Governor (or person acting as Governor as the case may be) ;

C.D.,
Deputy Governor (Assistant Deputy Governor or officer next in authority as the case may be).

THE
TRAVANCORE NATIONAL BANK LTD.

(Incorporated in Travancore 1912)

Head Office : ALLEPPEY

MADRAS OFFICES :

- (1) 164, Broadway
- (2) 183, Mount Road and
- (3) Luz Corner, Mylapore

BOMBAY OFFICE :

25, Church Gate Street
fort, BOMBAY

OTHER BRANCHES

Alleppey	Kottayam	Perumpavoor	Trivandrum
Calicut	Kumbakonam	Pollachi	Trippunithura
Cochin	Madura	Pudukottah	Trichinopoly
Devicolam	Mangalore	Quilon	Trichur
Dindigul	Munnar	Salem	Udumalpet
Ernakulam	Ootacamund	Srirangam	Tirupur
Karaikudi	Palghat	Tiruvalla	Virudhunagar

As on 28th February, 1935

CAPITAL—

Authorised	Rs. 50,00,000
Issued and Subscribed	,, 20,00,000
Paid-up	,, 7,17,000
RESERVE FUNDS	,, 2,50,000
TOTAL WORKING FUNDS EXCEED	,, 1,20,00,000

PROGRESS STATEMENT

Year	Paid-up Capital	Reserve Funds	Deposits	Investment on G. P. Notes	Cash Balance	Total Working Capital
1912	18,000	Nil	19,000	Nil	211	88,000
1917	59,000	8,000	1,10,000	Nil	500	1,87,000
1922	2,60,000	24,000	2,75,000	14,000	15,000	7,17,000
1927	8,02,000	1,10,000	9,27,000	62,000	1,07,000	15,27,000
1932	4,22,000	2,00,000	86,69,000	4,80,000	5,86,000	58,18,000
1934	6,76,000	2,50,000	78,90,000	12,49,000	14,80,000	1,15,92,000

All kinds of Banking Business done

Chairman :

K. C. MAMMEN MAPPILLAI, B. A.

Managing Director :

K. C. EAPEN, B. A.

