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PAPER CURRENCY IN INDIA.

PAPER CURRENCY IN INDIA

BY

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With a Foreword

BY

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**Member of the Royal Commission on Indian Currency and Finance
1925-26, and of the Indian Fiscal Commission 1921-22**



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To

J. C. KYDD, Esq.,

Teacher and more than a teacher

FOREWORD

It is a pleasure and a privilege to be asked to write a Foreword for such a scholarly treatise as that of Prof. Das Gupta's on Paper Currency in India. The literature of Indian Currency is already rich and has been of late increasing in volume as well as maintaining its quality. The days are gone by when the late Prof. Marshall could say "There are five thousand pages of able reports for the students of Indian Economics but no good text books." The last fifteen years have given us quite a number of good and able works on Indian economic topics; and the work of Prof. Das Gupta will form a notable addition to that list. Where the subject treated is so wide and complex, as in the present work, it is only natural that a few of the opinions expressed in it cannot command my assent; but I admire the general soundness of the exposition.

A monograph on the Paper Currency of such a great and important country as India, was in fact overdue. It is surprising, indeed, why some one out of our many well-trained economists did not single out the subject ere this for special treatment. It would appear that even in our days when so many scholars are on the look-out for suitable theses, we can still find, occasionally, an eligible subject seeking an able author. Prof. Das Gupta has seized the opportunity afforded to him by the want of special works on the Indian Paper Currency System and has made the most of it. Apart from the practical importance of such a subject, the record of six decades of the working of a Paper Currency System under such special circumstances was, if ably handled, sure to throw light on problems of theory, and our author has not failed to treat his subject in the light of the evolution of monetary theory and practice.

He has also shown in his handling of his thesis originality of thought and treatment, and his work is based on careful and painstaking research. He has spared no labour in collecting his facts and has founded his conclusions on a course of wide reading which included some sources of information of a *prima facie* unpromising and remote character.

A word might also be said about the general arrangement of the material. The problems in hand must have taken a lot of careful thinking out before they could be developed into the lucid and well-thought-out scheme of the book—the more so as the problems of Paper Currency are mixed up almost inextricably with other monetary matters. Our author has adopted the most logical course under the circumstances. The tangled mechanism of Paper Currency has been taken into its component parts, and each part is examined in isolation, so far as isolation is possible. This is a more convenient method than that which is usually followed in books of the sort. A complicated and difficult subject is thus made attractive to the reader. The author has a clear and attractive style, which has greatly facilitated the difficult work of monetary exposition.

I have read with special interest, attention and instruction the last chapter of Prof. Das Gupta's work—the one dealing with the recommendations contained in the Report of the Royal Commission on Indian Currency and Finance. I only wish that many more critics of that Report possessed the scholarly erudition and the well-balanced judgment of our author. Even where he is inclined to differ from the recommendations of that Report, he is fully aware of the special circumstances and difficulties which justify those recommendations. Criticism leads the way, but justification follows hard on its heels. Thus, on the one hand, he notes that "the transference of the note issue to a bank, whatever pompous name we call it by, is fraught with certain risks" (p. 272); but, on the other hand, he has emphasised how the transference of note issue to such a Reserve Bank—by whatever name it is

called—would prevent non-monetary considerations from influencing the administration of the paper currency (pp. 268-70). On the one hand he regrets the necessity of the partial “scrapping” of the permanent provisions for our paper currency laid down in 1920 (p. 263); on the other hand he clearly perceives that “a project of paper currency reform to suit and supplement a Rupee standard, silver monometallism or bimetallism, would of necessity be different in nature, from a project fitting into a gold standard” (p. 266). As a theorist he is impatient of the restraints—such as they are—imposed on the discretion of the management of the Reserve Bank (pp. 280-81); and yet he is aware that the transfer of the note issue from the Government is not without its risks, and consequently should not be without its safe-guards. In fact, the chapter is a very good commentary on the Hilton-Young Report.

But, there are many other topics of the monetary economics of India discussed very well indeed in the book; and on controversial matters the author is particularly interesting. I would instance his handling of such problems as the amalgamation of the Paper Currency and gold standard reserves, and the methods and proper meaning and measure of ‘elasticity.’ On the importance of price-stability as a basic principle of monetary policy the author has justly laid great stress.

In conclusion, I would emphasise the fact that the publication of the book is very timely. The whole monetary organisation of India is at present being discussed and examined by the public as it never was before; and it is to be hoped that this book which deals exhaustively with our Paper Currency but incidentally also with many other phases of our monetary system, will be carefully read by many of the public and will enlighten and guide their judgment.

PRESIDENCY COLLEGE, CALCUTTA.

3rd March, 1927.

J. C. COYAJEE.

PREFACE

The following work attempts to give an account of the past and the present of the Paper Currency System in India. It was prepared substantially in its present form and approved by the University of Calcutta as a thesis for the degree of Doctor of Philosophy. I have now revised the work, making additions and alterations in nearly every chapter. Chapter ten, dealing with the Future of the Issue, has been practically rewritten. I have endeavoured to be up-to-date, having noticed the latest landmark in the currency history of India, namely the Report of the Hilton-Young Commission. There is however no fixity or finality of things during a transition period. New happenings may soon make new currency history and events move too quickly to be caught by the camera of a passing publication. Although this uncertainty of outlook is a handicap, it leads at the same time additional weight to the necessity of a clear understanding of the past and of the present. To this end perhaps the book may be regarded as a timely contribution.

My purpose has been to deal exclusively with the paper currency, isolating it, as far as it bears such isolation, from the rest of the monetary system. This has been no easy task and I have had constantly to resist the temptation of embroiling myself in discussions of the monetary system generally or of parts of that system comparatively foreign to my purpose. I realise however the essential unity of the entire monetary structure of which paper currency forms an organic part.

Perhaps I need say a word about the arrangement of the work. I have divided the subject matter into two parts, dealing respectively with the period of bank issue and the

issue as in the hands of the State. Within these two broad divisions, it has appeared to me as the most convenient method to break up the different aspects of the issue into separate discussions and trace out their history and developments separately. The usual practice whereby all the departments of Paper Currency organisation are studied, rather mixed up, in a system of chronological presentation of Paper Currency Acts, seems hardly conducive to a quick and clear understanding of the various and many-sided developments of our Paper Currency. I have taken the machine into pieces and tried to examine each aspect as far as possible separately from the others. But the Paper Currency System, in all its aspects, forms of course one whole.

A history of Indian Paper Currency needs hardly any apology for it. The subject is important; and with the growing part that paper is destined to play in the circulating media of the country, it will continue to grow in importance. Indeed, in the new currency order outlined by the Hilton-Young Commission, paper will form the outstanding part of the circulation, if not the sole circulation. A study of Paper Currency again is full of interest, both from the theoretical standpoint as also from the point of view of practical experiments in currency administration. Nowhere else in the world has the State attempted to run a Paper Currency, the only one of its kind in the country, on such a scale and for such a long time. Lastly, the subject may also be said to be necessary. Much of our Paper Currency System is a tangle, and much of it, although beginning considerably after Tutankhamen, seems as much buried in the past as his remains. Sir Basil Blackett has said that one of the first things that he did on becoming the Finance Member was to ask for the existing Paper Currency Laws and after a hard day's labour 'he had to give the subject up.' An historical background, if I have not succeeded in making it still more complicated than the picture itself, may perhaps help to clear up the matter. At any rate seeing that Japan and a few other countries

possess excellent monographs about the story of their Paper Currencies, there is no reason why we should not have ours.

I am deeply indebted to Prof. Coyajee for the Foreword which he has kindly written for the book. It is no small privilege to be introduced to the reading public by one who is regarded as one of the most distinguished Indian economists living and whose experiences as a member of the Royal Commission on Indian Currency entitle him to speak with unique authority on Indian Currency questions. I am also grateful to Prof. Cannan for looking over a good part of the work and making a few corrections and suggestions. Through the courtesy of Mr. Denning, Controller of the Currency, I have had the advantage of consulting an officer of his Department and verifying my account of the technique of paper currency administration. I take this opportunity of thanking Mr. Denning and the officer.

THE UNIVERSITY,
LUCKNOW,
16th March, 1927.

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B. B. DAS GUPTA.

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APPENDIX A

ACT No. XIX OF 1861

*(Received assent of the Governor-General
on 16th July, 1861.)*

AN ACT TO PROVIDE FOR A GOVERNMENT PAPER CURRENCY.

WHEREAS it is expedient to provide for the issue by the Government of India, of Promissory notes payable to bearer on demand, and to regulate the mode of issuing and securing payment of the same; and whereas due notice has been given by the Governor-General of India in Council to the Banks of Bengal, Bombay and Madras respectively, as required by Acts VI of 1839, III of 1840 and IX of 1843, that the said Banks are to be modified by the power of the said banks to issue Promissory notes payable on demand, ceasing from and after the day hereinafter provided, it is enacted as follows:—

I. Section 31 of the said Act 6 of 1839, Section 31 of the said Act 3 of 1840, and Section 33 of the said Act 9 of 1843, so far as the said sections authorise the banks of Bengal, Bombay and Madras respectively to issue promissory notes payable on demand, are repealed from and after the 1st day of March, 1862.

II. After the passing of this Act no body corporate person or persons whatsoever, in British India (except Banks of Bengal, Madras and Bombay, up to the said 1st day of March, 1862 and except as hereinafter provided) shall draw, accept, make, or issue any bill of exchange or promissory note, or agreement 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 or notes payable

to bearer on demand of any such body corporate or any such person or persons. Provided that cheques or drafts payable to bearer on demand or otherwise, may be drawn on bankers, shroffs or agents by the customers or constituents of such bankers, shroffs or agents, in respect of deposits of money in the hands of such bankers, shroffs or agents, and held by them at the credit and disposal of the persons drawing such cheques or drafts.

III. There shall be established, by the Governor-General of India in Council, a department of the public service to be called The Department of Issue, either in connection with the Mints or otherwise, and from and after the passing of this Act, there may be issued from the said department as hereinafter provided, Promissory notes of the Government of India payable to bearer on demand for such sums not being less than 10 rupees as the Governor-General of India in Council shall from time to time direct.

IV. The Governor-General in Council, after the passing of this Act, shall appoint some person who may be the Master of the Mint at Calcutta, to be called the Head Commissioner of the Department of Issue, and two other persons who may be the Master of the Mint at Madras and the Master of the Mint at Bombay, who shall be called respectively, the Commissioners of the Department of Issue at Madras and Bombay, and it shall be lawful for the Governor-General of India in Council from time to time, by rules to be published in the *Gazettes* of Calcutta, Madras and Bombay, to make such arrangements through any officers of Government, or with any persons, banks or bodies corporate, either at Calcutta, Madras and Bombay or elsewhere as may be required to regulate and facilitate the issue and payment under the provisions of this Act of promissory notes of the Government of India of such denominations as shall be prescribed under the last foregoing Section, not being for less sum than 10 Rupees.

V. It shall be lawful for the Governor-General of India, in Council from time to time by order to be published

in the *Gazettes* of Calcutta, Madras and Bombay to establish in British India districts to be called "Circles of Issue" three of which circles shall include the towns of Calcutta, Madras and Bombay respectively, and in each circle to appoint some one city or town to be the place of issue of notes, as hereinafter provided. It shall be lawful for the Governor-General of India in Council by an order to be published as aforesaid from time to time to alter or extend the limits of the said circles, or any of them. Promissory notes of the Government of India may be issued in the several circles of issue as hereinafter provided.

VI. For each circle of issue other than those which include the towns of Calcutta, Madras and Bombay, there shall be appointed by the Governor-General in Council, an officer of the Government or other person to be called the Deputy Commissioner of Issue. In any circle of issue there may be also established an agency or agencies of issue in connection with a bank or otherwise.

VII. For the purposes of this Act, the Commissioners at Madras and Bombay shall be subordinate to the Head Commissioner. The Deputy Commissioners and Agents in the Presidency of Fort William in Bengal shall be subordinate to the Head Commissioner; and the Deputy Commissioners and Agents in the Presidencies of Fort St. George and Bombay shall be subordinate to the Commissioners of Madras and Bombay respectively.

VIII. The Head Commissioner of Issue for the time being shall provide, on paper to be specially manufactured for the purpose, Promissory notes of the Government of India payable to bearer on demand, of the denominations which shall from time to time be prescribed under Section 3 of this Act and shall supply or cause to be supplied to the Commissioners at Madras and Bombay and to the several Deputy Commissioners and Agents, such notes as they shall require for the purposes of this Act, and all notes shall bear upon them the name of the city or town from which they are severally issued, and shall be payable only at the office or offices or agencies of issue of such city or

town, and at the Presidency town of the Presidency within which such city or town is situated.

IX. The Head Commissioner, the Commissioners and the Deputy Commissioners and Agents shall, in their respective " Circles of Issue " on the demand of any person, issue from such offices or agencies of issue as shall be established in the appointed city or town in their respective circles, Promissory notes of such denominations as shall be prescribed under Section 3, not being for any less sum than 10 Rupees, on the terms following:—

First, in exchange for the amount thereof, in current silver coins of the Government of India.

Or secondly, in exchange for the amount thereof in standard silver bullion or foreign silver coin computed according to such standard at the rate of 979 Rupees per 1,000 tolahs of standard silver fit for coinage.

Provided that the said Head Commissioner, Commissioners, Deputy Commissioners and Agents, shall, in all cases, be entitled to require such silver bullion and foreign coin to be melted and assayed at the expense of the person tendering the same; and provided also that in all places where there is no Mint of the Government of India, it shall be optional for any such Head Commissioner, Commissioners, Deputy Commissioners and Agents to issue notes in exchange for silver or foreign coin under this section.

Or thirdly, in exchange for other notes of the Government of India, payable to bearer on demand, of other amounts issued within the same circle. Provided also that it shall be lawful for the Governor-General in Council from time to time to direct, by order to be published in the *Gazettes* of Calcutta, Madras and Bombay, that notes to an extent to be specified in the order, not exceeding one-fourth of the total amount of issues represented by coin and bullion as herein provided shall be issued at such offices or Agencies of issue, as may be named in the order, in exchange for gold coin of full weight of the Government of India or for foreign gold coin or gold bullion computed at

such rates, and according to such rules and conditions as shall be fixed by such order and which rates, rules, and conditions shall not be altered without six months' previous notice. Whenever such order shall be issued, the Head Commissioner, Commissioners, Deputy Commissioners and Agents at the offices or agencies specified in the order shall be bound to issue notes on demand in conformity with such order.

X. The whole amount of the bullion and coin so received for notes shall be retained and secured as a reserve to pay such notes, with the exception of such an amount not exceeding four crores of rupees as the Governor-General in Council, with the consent of the Secretary of State for India, shall from time to time fix. The amount so fixed shall be published in the *Gazettes* of Calcutta, Madras and Bombay and shall be invested in Government securities, and the said coin, bullion and securities shall be appropriated and set apart to provide for the satisfaction and discharge of the said notes; and the said notes shall be deemed to have been issued on the security of the coin, bullion and securities so appropriated and set apart, as well as on the general credit of the Government. Provided that any gold coin or bullion which may be received under this Act, may be sold or exchanged for silver coin or bullion to be appropriated and set apart, instead of the gold coin or bullion.

XI. The Government Securities purchased under this Act in the Presidency of Fort William in Bengal shall stand in the name of the Head Commissioner and the Master of the Mint at Calcutta, the Government securities purchased under this Act in the Presidency of Fort St. George shall stand in the name of the Commissioner at Madras and the Master of the Mint at Madras, and the Government Securities purchased under this Act in the Presidency of Bombay shall stand in the name of the Commissioner at Bombay and the Master of the Mint at Bombay. Provided that if the Head Commissioner or Commissioner in any case be the Master of the Mint, the

Governor-General in Council shall appoint another trustee or trustees in addition to the Master of the Mint.

XII. The Head Commissioner from time to time shall frame rules to be approved by the Governor-General of India in Council, for keeping the accounts of the said Department of Issue, and for the auditing of such accounts and for otherwise regulating the business of the department; provided that such rules shall be in no wise inconsistent with the provisions of this act.

XIII. An abstract of the accounts of the department showing the whole amount of notes in circulation, the amount of coin and bullion reserved, distinguishing gold from silver and the amount of the Government Securities held by the said department shall be made up monthly in Calcutta, Madras and Bombay.

XIV. It shall be lawful for the Head Commissioner in respect of the Presidency of Fort William in Bengal and for the Commissioners at Madras and Bombay in respect of the Presidencies of Madras and Bombay respectively, at any time when they shall be ordered so to do by the Governor-General of India in Council, to sell and dispose of any portion of the above mentioned limited amount of Government Securities standing in their names respectively and in the names of the Masters of the Mint or trustees as aforesaid; and for the purpose of effecting such sales, the said Masters of the Mint or trustees respectively shall, on a request in writing from the said Head Commissioner or Commissioners in their respective presidencies at all times sign and endorse such Government Securities as shall stand in their names respectively, and it shall be lawful for the said Head Commissioner or Commissioners if directed by the Governor-General of India in Council to purchase Government securities to replace their sales.

XV. The interest accruing due on the Government Securities purchased and held under this Act shall be entered in a separate account to be annually rendered by the Head Commissioner to the Governor-General of India in Council; and the amount of such interest shall from time

to time as it becomes due be paid by the Accountants-General in the several Presidencies of India into the Revenues of the Government of India, under the head of " Profits of Note Circulation," and an account showing the amount of profits of the note circulation and of the charges and expenses incidental thereto, shall be made up and published annually in the *Gazettes* of Calcutta, Madras and Bombay.

XVI. Within any of the circles of the issue as hereinafter provided, a tender of a note or notes issued under this Act from any office or agency of issue of such circle of issue, shall be a legal tender to the amount expressed in such note or notes and shall be taken to be valid as a tender to such amount in payment of any revenue or other claim to the amount of Rs. 10 and upwards due to the Government of India and in payment of any sum of 10 rupees and upwards due by the Government of India or any body corporate or by any person or persons in British India on all occasions whatsoever on which any tender of money can be legally made. Provided that no such note or notes shall be deemed to be a legal tender of payment by the Government of India at any office of issue or at the issue department of any agency of issue.

XVII. The name of the Head Commissioner, of either of the Commissioners, of any Deputy Commissioner, or of any other person authorised by the said Head Commissioner or by either of the said Commissioners, to sign notes issued under this Act may be impressed or affixed by machinery provided for that purpose by the Government of India and such printed names shall be taken to be good and valid signatures to all intents and purposes, as if such notes had been subscribed in the proper handwriting of any one of the persons aforesaid, whose signatures the said printing purports to represent.

XVIII. All notes issued under this Act shall be deemed and taken to be promissory notes of the Government of India and may and shall be described as Promis-

sory notes of the Government of India in all indictments and in criminal and civil proceedings, any law or usage to the contrary notwithstanding.

XIX. If any body corporate or person after the passing of this Act shall, contrary to the provisions of this Act, draw, accept, make or issue any Bill of Exchange 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 or notes or engagements for the payment of money payable to bearer on demand of any such body corporate or person, such body corporate or person shall be liable to a penalty to the amount of every such Bill of Exchange, Promissory note or engagement for the payment of money, to be recovered on the prosecution of the Head Commissioner, Commissioners or Deputy Commissioners as the case may be of the circle of issue in which such Bill of Exchange, Promissory note or engagement for the payment of money is issued, before any Police Magistrate or Magistrate within such circles of issue and in case of conviction and default of payment of such penalties, the Police Magistrate or Magistrate who shall try the case shall issue his warrant to levy the amount thereof together with the reasonable costs of the prosecution, by distress and sale of the goods and chattels of the body corporate or person so convicted.

XX. The words "British India" in this Act shall denote the territories that are or may be vested in Her Majesty by the Statute 21 and 22 Vic. C 106 entitled "An Act for the Better Government of India," except the Settlement of Prince of Wales' Island, Singapore and Malacca.

APPENDIX B

ACT No. XX of 1923

As Amended by the two Indian Paper Currency
(Amendment) Acts of 1923 and 1925.

An Act to consolidate the law relating to the Government
Paper Currency.

WHEREAS it is expedient to consolidate the law relating to the Government Paper Currency; it is hereby enacted as follows:—

PRELIMINARY.

1. (1) This Act may be called the Indian Paper Currency Act, 1923.
- (2) It extends to the whole of British India, inclusive of British Baluchistan and the Santhal Parganas.
2. In this Act, " universal currency note " means—
 - (a) a note of the denominational value of one rupee, two and a half rupees, five rupees, ten rupees, fifty rupees, or one hundred rupees, or
 - (b) a note of any other denominational value which the Governor-General in Council may, by notification in the *Gazette of India*, specify in this behalf.

THE CURRENCY DEPARTMENT.

3. There shall continue to be a Department of the public service, to be called the Currency Department, whose function shall be the issue of promissory notes of the Government of India, to be called Currency notes, payable

to bearer on demand, and of such denominational values as the Governor-General in Council may direct.

4. At the head of the Department there shall be an officer to be called the Controller of the Currency (hereinafter referred to as the Controller).

5. The Governor-General in Council may by notification in the *Gazette of India*—

- (a) establish districts to be called circles of issue, seven of which circles shall include the towns of Calcutta, Madras, Bombay, Rangoon, Lahore, Cawnpore and Karachi, respectively;
- (b) appoint in each circle some one town to be the place of issue of currency notes, as hereinafter provided;
- (c) establish in each such town an office or offices of issue; and
- (d) establish in any town situate in any circle an office, to be called a currency agency.

6. For each circle of issue there shall be an officer in charge to be called the Deputy Controller of the Currency, and for each Currency Agency an officer to be called the Currency Agent.

7. For the purposes of this Act—

- (a) Deputy Controllers of the Currency shall be subordinate to the Controller and (b) the Currency Agent at any town shall be subordinate to the Deputy Controller of the Currency for the circle of issue in which that town is situate.

8. All officers under this Act shall be appointed by the Governor-General in Council.

SUPPLY AND ISSUE OF CURRENCY NOTES.

9. (1) The Controller shall provide currency notes of the denominational values prescribed under this Act, and

shall supply the Deputy Controllers with such notes as they need for the purposes of this Act.

- (2) The Deputy Controllers shall supply the Currency Agents subordinate to them, respectively, with such notes as those Agents need for the purposes of this Act.
- (3) Every such note, other than a universal currency note, shall bear upon it the name of the town from which it is issued.

10. The name of the Controller or one of the Deputy Controllers, or of some other person authorised by the Controller or by one of the Deputy Controllers, to sign currency notes, shall be subscribed to every such note, and may be impressed thereon by machinery, and, when so impressed, shall be deemed to be a valid signature.

11. The officers in charge of circles of issue shall, in their respective circles, on the demand of any person, issue, from the office or offices of issue established in their respective circles, currency notes of the denominational values prescribed under this Act, in exchange for the amount thereof

- (a) in rupees or silver half-rupees or in gold coin which is legal tender under the Indian Coinage Act, 1906, or
- (b) in rupees made and declared to be a legal tender under the provisions of the Native Coinage Act, 1876.

12. Any Currency Agent to whom currency notes have been supplied under Section 9 may, if he thinks fit, on the demand of any person, issue from his agency any such notes in exchange for the amount thereof in any coin specified in Section 11.

13. The officers in charge of circles of issue shall, on the requisition of the Controller, issue to any Government Treasury currency notes in exchange for gold coin which is not legal tender under the Indian Coinage Act, 1906, or

for gold bullion at the rate of one rupee for 11·30016 grains troy of fine gold.

CURRENCY NOTES WHERE LEGAL TENDER AND WHERE PAYABLE.

14. A universal currency note shall be a legal tender at any place in British India, and any other currency note shall be a legal tender at any place within the circle from which the note was issued,

for the amount expressed in the note in payment or on account of—

- (a) any revenue or other claim, to the amount of one rupee and upwards, due to the Government of India, and
- (b) any sum of one rupee or upwards, due by the Government of India or by any body corporate or other person in British India ;

Provided that no currency note shall be deemed to be a legal tender by the Government of India at any office of issue.

15. A currency note shall be payable at the following offices of issue, namely:—

- (a) a universal currency note at any office of issue;
- (b) a currency note other than a universal currency note at any office of issue in the town from which it was issued;

Provided that any such note issued before the 18th day of February, 1910, shall also be payable,

- (i) in the case of a note issued from the office at Cawnpore or Lahore, at any office of issue in Calcutta, and
- (ii) in the case of a note issued from the office at Karachi, at any office of issue in Bombay.

16. For the purposes of Sections 14 and 15, currency notes issued from any currency agency shall be deemed to have been issued from the town appointed under Section 5

to be the place of issue in the circle of issue in which that agency is established.

17. Where an office of issue is closed, the Governor-General in Council shall, by notification in the *Gazette of India*, direct that, with effect from the date of the closing of such office, all currency notes issued therefrom shall, for the purposes of Sections 14 and 15, be deemed to have been issued from such other office as may be specified in such notification.

RESERVE.

18. (1) The provisions contained in this section shall not come into operation until such day (hereinafter referred to as the appointed day) as the Governor-General in Council may direct in this behalf.

(2) A Reserve shall be maintained for the satisfaction and discharge of the currency notes in circulation and all such notes shall be deemed to have been issued on the credit of the revenues of India as well as on that of the Reserve.

(3) The Reserve shall consist of two parts, namely:—

(a) the metallic Reserve, and

(b) the securities reserve.

(4) the metallic reserve shall consist of the total amount represented by the sovereigns, half-sovereigns, rupees, silver half-rupees, and gold and silver bullion for the time being held on that account by the Secretary of State for India in Council and by the Governor-General in Council;

Provided that no amount of gold coin and bullion held by the Secretary of State in the United Kingdom in excess of fifty millions of rupees in

value reckoned at the rate hereinafter provided for shall be included in the metallic reserve.

- (5) the securities Reserve shall consist of the securities which are for the time being held on that account by the Secretary of State for India in Council and on behalf of the Governor-General in Council :

Provided that—

- (a) no securities held by the Secretary of State for India in Council, other than securities of the United Kingdom, the date of maturity of which is not more than one year from the date of their purchase, shall be included in the securities reserve; and,
- (b) the securities held on behalf of the Governor-General in Council shall be securities of the Government of India and shall not exceed in amount two hundred millions of rupees of which an amount of not more than one hundred and twenty millions of rupees may be securities created by the Government of India and issued to the Controller (such securities being hereinafter referred to as created securities).
- (6) For the purposes of this Section the expression " Currency notes in circulation " means the whole amount of currency notes at any time in circulation;

Provided that currency notes which have not been presented for payment, in the case of notes of the denominational value of fifty or one hundred rupees, within forty years and in the case of notes of any denominational value exceeding one hundred rupees, within one hundred years, from the 1st day of April following the date of that issue, shall be deemed to be not in circulation;

Provided further, that all such notes shall be deemed to have been issued on the credit of the revenues

of India and shall, if presented for payment, be paid from such revenues.

- (7) Save as hereinafter provided in Section 20, the amount of currency notes in circulation at any time shall not exceed the amount of the metallic reserve together with the amount of the securities reserve:

Provided that it shall not be lawful for the Governor-General in Council to direct the issue of currency notes, if or to the extent that such issue would have the effect of raising the amount of notes in circulation to an amount in excess of twice the amount for the time being of the metallic reserve.

- (8) For the purpose of determining—

- (a) the amount of the metallic reserve, gold bullion shall be reckoned at the rate of one rupee for 11·30016 grains troy of fine gold, and silver bullion at the price in rupees at which it was purchased,

Or, in the case of bullion obtained by melting down silver coin issued under the authority of the Governor-General in Council, at the rate of one rupee for 165 grains troy of fine silver;*

- (b) the amount of the securities reserve, purchased securities shall be reckoned at the price at which they were purchased and created securities at the market price of similar securities on the date of their issue.
- (9) The securities of the Government of India in the Reserve shall be held by the Controller and the Master of the Mint at Calcutta or of such other

* This paragraph was added to the Act by the Indian Paper Currency (Amendment) Act of 1923.

Mint as the Governor-General in Council may direct in this behalf, in trust for the Secretary of State for India in Council.

19. (1) As soon as conveniently may be after the relation of the amount of the Currency notes in circulation to the amount of the Reserve has been brought into conformity with sub-sections (2) to (8) of Section 18 and the metallic reserve is not less than half the amount of currency notes in circulation, the Governor-General in Council shall fix the appointed day.

- (2) The provisions contained in this Section shall be in force until the appointed day, but shall as from that day be deemed to be repealed.
- (3) Save as hereinafter provided in Section 20, the whole amount of currency notes at any time in circulation shall not exceed the total amount represented by the sovereigns, half-sovereigns, rupees, silver half-rupees, and gold bullion and the sum expended in the purchase of the silver bullion and securities, which are for the time being held by the Secretary of State for India in Council and by the Governor-General in Council as a reserve to provide for the satisfaction and discharge of the said notes, and the said notes shall be deemed to have been issued on the credit of the revenues of India as well as on the security of the said coin, bullion and securities;

Provided that for the purposes of this sub-section, currency notes which have not been presented for payment, in the case of notes of the denominational value of fifty or one hundred rupees within forty years, and in the case of notes of any denominational value exceeding one hundred rupees, within one hundred years from the first day of April following the date of their issue, shall be deemed not to be in circulation;

Provided further that all notes which are declared under the first proviso to this sub-section not to be in circulation shall be deemed to have been issued on the credit of the revenues of India and shall, if subsequently presented for payment, be paid from such revenues.

Explanation.—For the purposes of this sub-section, the sum expended in the purchase of silver bullion obtained by melting down silver coin issued under the authority of the Governor-General in Council shall be deemed to be the value of the bullion calculated at the rate of one rupee for 165 grains troy of fine silver.*

- (4) The securities mentioned in sub-section (3) shall be securities of the United Kingdom of Great Britain and Ireland or of the Government of India, or securities issued by the Secretary of State for India in Council under the authority of Act of Parliament and charged on the revenues of India, and the value of them at the price at which they are purchased shall not exceed one thousand millions of rupees.†
- (5) If the Secretary of State for India in Council consents to hold in gold coin or bullion or in silver bullion or in securities of the kinds mentioned in sub-section (4), the equivalent in value to notes issued in India as a reserve to secure the payment of such notes, the Governor-General in Council may from time to time direct that currency notes shall be issued to an amount

* This explanation was inserted later by the Indian Paper Currency (Amendment) Act, 1923.

† Originally 850 millions. The Indian Paper Currency (Amendment) Act of 1925 substituted 100 for 85 crores.

equal to the value of the coin bullion, and securities so held by the Secretary of State for India in Council.

- (6) Notwithstanding anything to the contrary in this Act, any securities created by the Government of India and issued to the Controller shall, for the purposes of this Act, be deemed to be securities purchased by the Governor-General in Council and the market price, on the day such securities were so issued, of similar securities shall be deemed to be the price at which the securities so created were purchased, and all references to securities so purchased, wherever occurring in this Act shall be deemed also to refer to securities so created, and all references to sums expended in such purchases or to prices paid therefor shall be deemed, in the case of securities so created, to refer to such prices, and this Act shall be construed accordingly.
- (7) As long as the value of securities created by the Government of India and issued to the Controller and deemed in accordance with the provisions of the foregoing sub-section to be securities purchased by the Governor-General in Council exceeds one hundred and twenty millions of rupees, all interest derived from the securities in the reserve shall, with effect from 1st day of April, 1923, be applied in reduction of such excess holding of securities and the Auditor-General shall in every year grant a certificate of the amount of such interest and shall also certify whether or not it has been so applied. For the purposes of this sub-section securities so created and issued shall be deemed to carry interest at the same rate as other similar securities.
- (8) The securities purchased by the Governor-General in Council shall be securities of the

Government of India and shall be held by the Controller and the Master of the Mint at Calcutta or of such other Mint as the Governor-General in Council may direct in this behalf, in trust for the Secretary of State for India in Council.

20. Notwithstanding anything to the contrary in Section 18 or Section 19, the Governor-General in Council may authorise the Controller to issue Currency notes to an amount in all not exceeding fifty millions of rupees* against bills of exchange which will mature within ninety days from the date of such issue and satisfy such other conditions as the Governor-General in Council may, by general or special order, prescribe. Currency notes so issued shall be in addition to those against which the reserve is held and shall be deemed to have been issued on the credit of such bills and of the revenues of India and shall when presented, be paid from such revenues.

21. Subject to the provisions of Sections 18 and 19, the Governor-General in Council may, at any time, if he think it expedient, convert any of the coin or bullion for the time being held by him as a part of the reserve into coin of any of the kinds mentioned in Section 11 or into gold or silver.

22. Notwithstanding anything to the contrary in this Act, any coin or bullion which is held by or on behalf of the Secretary of State for India in Council in the United Kingdom or under the control of the Government of any part of His Majesty's Dominions for the purpose of coinage for, or transmission to, the Governor-General in Council and any coin or bullion which is in course of transmission from the Secretary of State for India in Council or the Government of any part of His Majesty's Dominions to the Governor-General in Council and any coin or bullion which is in course of transmission from the Governor-

* The Indian Paper Currency (Amendment) Act, 1923 substituted 120 millions for 50 millions.

General in Council to the Secretary of State for India in Council or the Government of any part of His Majesty's Dominions shall be deemed, during the period such coin or bullion is so held or is so in course of transmission, to be part of the reserve referred to in Sections 18 and 19.

23. (1) The Controller may at any time, when ordered so to do by the Governor-General in Council, sell and dispose of any of the securities held under Sub-section (9) of Section 18 or Sub-section (8) of Section 19.

(2) For the purpose of effecting such sales, the Master of the Mint at Calcutta or of such other Mint as aforesaid shall, on a request in writing from the Controller at all times, sign and endorse the securities, and the Controller, if so directed by the Governor-General in Council, may purchase securities of the Government of India to replace such sales.

24. An account showing the amount of the interest accruing on the securities held as part of the reserve under this Act and the expenses and charges incidental thereto, shall be rendered annually by the Controller to the Governor-General in Council, and published annually in the *Gazette of India*.

PRIVATE BILLS PAYABLE TO BEARER ON DEMAND.

25. No person in British India 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, payable to bearer on demand or otherwise, may be drawn on bankers, shroffs or agents by their customers or constituents, in respect of deposits of money in the hands of those bankers, shroffs

or agents and held by them at the credit and disposal of the persons drawing such cheques or drafts.

26. (1) Any person contravening the provisions of Section 25 shall, on conviction by a Presidency Magistrate or a Magistrate of the first class, be punishable with a fine equal to the amount of the bill, hundi note or engagement in respect whereof the offence is committed.

(2) Every prosecution under this Section shall be instituted by the officer in charge of the circle of issue in which the bill, hundi note or engagement is drawn, accepted, made or issued.

SUPPLEMENTARY PROVISIONS.

27. An abstract of the accounts of the Currency Department showing—

- (a) the whole amount of currency notes in circulation;
- (b) the amount of coin and bullion reserved, distinguishing gold from silver, and showing separately the amount of coin or bullion held on behalf of the Secretary of State for India in Council or in transit from or to India, or in the custody of the Mint Master during coinage;
- (c) the nominal value of, and the price paid for, the securities held as part of the reserve, showing separately those held by the Secretary of State for India in Council and those held in India under sub-section (9) of Section 18 or sub-section (8) of Section 19; and
- (d) the amount of currency notes issued against Bills of Exchange under the provisions of Section 20: shall be made up four times in each month by the Controller and published as soon as may be in the *Gazette of India*.

28. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall as of right be entitled to recover from the Government of India the value of any lost mutilated or imperfect currency note;

Provided that the Governor-General in Council may, by rule, prescribe the circumstances, conditions and limitations under which the value of such notes may be refunded as of grace.

29. (1) The Governor-General in Council may make rules to carry out the purposes and objects of this Act.

(2) In particular and without prejudice to the generality of the foregoing power such rules may—

- (a) fix the denominational values for which currency notes shall be issued;
- (b) provide for the alteration of the limits of any of the circles of issue;
- (c) declare the places at which currency notes shall be issued; and
- (d) prescribe the circumstances in, and the conditions and limitations subject to, which the value of lost, mutilated or imperfect currency notes may be refunded at the office of issue.

(3) Every such rule shall be published in the *Gazette of India* and on such publication shall have effect as if enacted in this Act.

30. The enactments mentioned in the Schedule are hereby repealed to the extent specified in the last column thereof:

Provided that all securities purchased and notes issued under the Indian Paper Currency Act, 1910 and all securities and notes which under Section 30 of that Act,

are to be deemed to have been purchased or issued thereunder shall, if undisposed of or in circulation at the commencement of this Act, be deemed to have been respectively purchased and issued under this Act:

Provided further that all currency notes, which, under the said Section 30, are to be deemed to have been issued from the office of issue in the town of Cawnpore, shall still be deemed to have been issued from that office.

THE SCHEDULE.

Enactments Repealed.

(See Section 30.)

Year.	No.	Short Title.	Extent of Repeal.
1910	2	Indian Paper Currency Act, 1910.	So much as has not been repealed.
1911	7	The Indian Paper Currency (Amendment) Act, 1911.	The whole.
1914	10	The Repealing and Amending Act, 1914.	So much of the second schedule as relates to the Indian Paper Currency Act, 1910.
1917	19	The Indian Paper Currency (Amendment) Act, 1917.	So much as has not been repealed.
1920	45	The Indian Paper Currency (Amendment) Act, 1920.	The whole.
1922	12	The Indian Finance Act, 1922.	Section 6.

Note.—In terms of the Currency Act, 1927 (Act I of 1927) the rate of valuation of gold has been altered to one rupee for 8.47512 (instead of 11.30016) grains of gold.

APPENDIX C

PROPOSED NEW PAPER CURRENCY LEGISLATION

Extracts from Bill No. 2 of 1927

A Bill to establish a gold standard currency for British India and constitute a Reserve Bank of India.

WHEREAS it is expedient to provide for the establishment of a gold standard currency for British India, to constitute a Reserve Bank of India to control the working of that standard and regulate the issue of bank notes and the keeping of reserves with a view to securing stability in the monetary system of British India, and generally to make provisions for matters incidental thereto; it is hereby enacted as follows:—

CHAPTER I.

PRELIMINARY.

§ 1 and 2.—These two sections deal with the title extent, commencement and duration and the definitions of terms.

CHAPTER II.

INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

§ 3.—This provides for the establishment and incorporation of the Reserve Bank of India.

§ 4 and 5.—These lay down the provisions regarding the share capital of the Bank.

§ 6.—This deals with the Head Office, Branches and Agencies.

§ 7 to 12.—These contain provisions regarding the management of the Bank. Qualifications for directorship, composition of the Board of Management and meetings of the Board are dealt with.

§ 13.—Outlines certain temporary provisions for the formation of the first Board.

§ 14.—Deals with the business of the Bank. Among others it may carry on the business of

* * *

(2) (a) the purchase, sale and re-discount of bills of exchange and promissory notes, payable in India and arising out of *bonafide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a bank, and maturing within ninety days from the date of such purchase or re-discount;

(b) the purchase, sale and re-discount of bills of exchange and promissory notes, bearing two or more good signatures, one of which shall be that of a bank, drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within six months from the date of such purchase or re-discount;

* * *

(16) the making and issue of bank notes subject to the provisions of this Act.

§ 15.—After such date as the Governor-General in Council may fix in this behalf, the Bank may, notwithstanding any limitations contained in sub-clauses (a) and (b) of clause (2) of Section 14, purchase, sell or discount any bills of exchange or promissory notes arising out of *bonafide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount.

§ 16.—Describes the business which the Bank may not transact.

CHAPTER III.

CENTRAL BANKING FUNCTIONS.

Relations of the Bank with the Secretary of State in Council and the Governor-General in Council.

§ 17 and 18.—Bank to transact Government business.

Note Issue.

§ 19.—(1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period of one year from the date on which this Chapter comes into force, 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 or any other kind of paper money.

§ 20.—(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 29.

(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.

§ 21.—Bank notes shall be of the denominational values of 5, 10, 50, 100, 500, 1,000 and 10,000 rupees, and of such other denominational values, if any, as may be directed by the Governor-General in Council.

§ 22.—The design, form and material of bank notes shall be such as may be approved by the Governor-General in Council.

§ 23.—(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.

§ 24.—The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled, and any bank note re-issued from any office of the Bank shall be sterilized and disinfected before re-issue.

§ 25.—Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Bank the value of any lost, stolen, mutilated or imperfect 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 bank notes may be refunded as of grace.

Prohibition of Issue of Private Bills or Notes payable to Bearer on Demand.

§ 26.—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, own 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 payable to bearer on demand or otherwise may be drawn on bankers, shroffs or agents by their customers or constituents in respect of deposits of money in the hands of those bankers, shroffs or agents and held by them at the credit and disposal of the persons drawing such cheques or drafts.

§ 27.—(1) Any person contravening the provisions of Section 26 shall, on conviction by a Presidency Magistrate or a Magistrate of the first class, be punishable with a fine equal 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.

§ 28.—(1) The Reserve shall consist of gold coin, gold bullion, gold 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 Reserve not less than two-fifths shall consist of gold coin, gold bullion or gold securities:

Provided that the amount of gold coin and gold bullion shall not at any time be less than three hundred million rupees in value and shall not be less than one-fifth of the total amount of the Reserve after the end of the fifth year, or than one quarter of the total amount of the Reserve after the end of the tenth year, from the date on which this Chapter comes into force.

- (3) The remainder of the Reserve shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes drawn and 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 14 or under Section 15:

Provided that the amount held in rupee coin shall not exceed—

- (a) during the three years after the date on which this Chapter comes into force, seven hundred million rupees.
- (b) during the next three years, five hundred million rupees,
- (c) during the next four years, three hundred and fifty million rupees, and
- (d) two hundred and fifty million rupees thereafter,

or one-tenth of the total amount of the Reserve whichever amount is greater:

Provided further, that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the Reserve or five hundred million rupees, whichever amount is less.

- (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 gold and rupee securities shall be valued at the market rate for the time being obtaining.
- (5) Of the gold coin and gold bullion held in the Reserve not less than one-half shall be held in British India, and all gold coin and gold bullion forming part of the Reserve 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 mint or in transit may be reckoned as part of the Reserve.

- (6) For the purposes of this section, the gold securities which may be held as part of the Reserve shall be securities of any of the following kinds payable in the currency of any gold standard country, namely:—
 - (a) balances at the credit of the Issue department with a bank which is the principal currency authority under the law for the time being in force of such country;
 - (b) bills of exchange bearing two or more good signatures and drawn on and payable at a place in any such country and having a maturity not exceeding ninety days;
 - (c) securities of the Government of any such country 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 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 14.

Liabilities of the Issue Department.

§. 29.—(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 and of an initial amount of five hundred million rupees for the purpose of providing for rupee redemption, which last-mentioned amount shall be reduced by one rupee for every five rupees delivered to the Governor-General in Council under the provisions of Section 31, and shall be increased by one rupee for every five rupees received from him under Section 32.

(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 20, 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.

§ 30.—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, gold securities, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred and of a sum of five hundred million rupees. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of Section 28:

Provided that the total amount of the gold coin, gold bullion and gold securities so transferred shall not be less than one half of the whole amount transferred.

Supply of Coin, and of Different Forms of Legal Tender Currency.

§ 31.—The Bank may deliver to the Governor-General in Council all rupee coin held by it in excess of the amount which the Issue department is permitted to hold as part of the Reserve under Section 28, against payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

§ 32.—When the amount of rupee coin for the time being held in the Reserve does not exceed two hundred and fifty millions or one-tenth of the total amount of the Reserve, whichever is greater, the Bank may demand delivery of rupee coin from the Governor-General in Council, on payment of four rupees in bank notes, gold securities for every five rupees so delivered.

§ 33.—The Governor-General in Council shall undertake not to re-issue any rupee coin delivered under Section 31, nor to put into circulation any new rupees, except through the Bank and on the Bank's demand; 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.

§ 34.—The Bank shall issue rupee coin on demand in exchange for currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for rupee coin, and it shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or rupees or other coins which are legal tender under the India 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, subject to the provisions of Section 32, supply such rupees or other coins to the Bank on demand. If the Governor-General in Council at any time fails to discharge this duty, the Bank shall be released from its obligation to supply such coins to the public.

§ 35 to 37.—Deal with the terms of the purchase and sale of gold by the Bank, also lay down certain interim provisions in this connection.

*Suspension of Reserve Requirements and
Tax on Note Issues.*

§ 38.—(1) 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 in the Reserve gold coin, gold bullion or gold

securities of less aggregate amount than that required by sub-section (2) of Section 28 and, whilst the holding is so reduced the proviso to that sub-section shall cease to be operative.

- (2) In respect of any period during which the holding of gold coin, gold bullion and gold 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 28; 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 Reserve 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.

- § 39.—Save as provided by Section 38, the Bank shall not be liable to the payment of any stamp duty or other duty or tax in respect of bank notes issued by it.

Duration of the Privilege of Note Issue.

- § 40.—If at any time the Bank fails to comply with any provision of this Chapter or with any other provision of this Act, the Governor-General in Council may, by notification in the *Gazette of India*, declare that the Bank has forfeited the right of note issue, and shall thereupon take over the liabilities of the Issue department together with such portion of the assets of the Bank as is required to meet such liabilities, and thereafter the business of the Issue department shall be carried

on in the manner prescribed by this Act by such agency as the Governor-General in Council may determine.

§ 41 and 42.—Provide for the keeping of cash reserves by certain banks with the Reserve Bank and authorise it to enter into agreement with the Imperial Bank of India.

CHAPTER IV.

GENERAL PROVISIONS.

Reserve Fund and Allocation of Surplus.

- § 43 and 44.—Deal with the allocation of surplus and the Bank rate respectively.
- § 45 to 47.—Deal with audit and powers and duties of auditors.
- § 48 and 49.—Lay down provisions regarding the publication of returns and liquidation respectively.
- § 50.—Defines the power of the Bank to make regulations regarding certain matters.
- § 51 and 52.—Indicate amendments and repeals of past Acts.

There are three schedules—the third one prescribes the form in which weekly returns of the Issue Department are to be made and published.

ISSUE DEPARTMENT.

LIAILITIES.		ASSETS.	
	Rs.		Rs.
Bank notes held in the Banking Department		Rupee coin	...
Bank notes in circulation		Government of India	...
Total Bank notes	...	rupee securities	...
Government of India notes in circulation	...	Internal bills of exchange and other commercial paper	...
Rupee redemption	...	Gold securities	...
		Gold coin or bullion	...
Total	...	Total	...
Ratio of gold and gold securities to liabilities		per cent.	

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Bank notes in circulation		Government of India rupee securities ...	
Total Bank notes		Internal bills of exchange and other commercial paper ..	
Government of India notes in circulation		Gold securities ...	
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Total	...	Total	...
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ERRATA

- Page 5. Omit line 25 and substitute 'development of the Paper Currency of the country'.
- Page 20. Second foot-note, Line 1. Add '5' after 'Three Noten von'.
- Page 93. Line 24. Read 'Province' for 'Providence'.
- Page 98. Line 25. Read 'antithesis' for 'anthesis'.
- Page 127. Line 8. Read 'reverse' for 'reserve'.
- Page 132. Line 3. Read 'proved' for 'provided'.
- Page 190. Line 21. Read 'this' for 'his'.
- Page 210. Last line. Read 'more' for 'wore'.