

CHAPTER IV

FOREIGN EXCHANGES

CHAPTER IVPROVISION OF FOREIGN CURRENCIES AND SUPPORT OF  
THE EXCHANGESI. BY GREAT BRITAIN.THE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

Early in February 1915, the American Exchange began to fall away below the limit of its normal variations and, on the 18th February, J.P. Morgan & Co. were asked, through Morgan, Grenfell & Co., to take up quietly, in association with the First National Bank, New York, and the National City Bank, New York, all Sterling Bills offered up to a total of \$10,000,000, making a loan to the Bank of England at  $3\frac{1}{2}\%$ . Exchange was to be supported at 4.82.

On the 24th February the amount which might be expended was increased to \$25,000,000 and it was decided to lower the level at which Exchange was to be kept to 4.81. By the third week in May more than the amount mentioned had been bought, but no further limits appear to have been imposed, Morgans continuing to buy such amounts as seemed necessary at various levels. From the beginning  $3\frac{1}{2}\%$  War Loan was set aside at the Bank of England as cover against the amount of the dollar loan outstanding. As early as the 10th May the Bank began to make arrangements for the repayment of the loan and for this purpose decided to send gold from Ottawa to New York. The first instalment, in United States coin, reached New York about the middle of May. The American Express Co. carried out all deliveries.

CHAPTER IV  
FOREIGN EXCHANGES

THE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

On the 9th June J.P. Morgan & Co. were advised that the rate level of 4.77 should be substituted for that of 4.79 to which they had apparently been working since early in March.

Further gold shipments took place, the total amount despatched from Ottawa and Montreal in discharge of the advance, between May and the end of August, being -

U.S. Coin	2,552,295.786	ounces	} value at Bank's usual buying prices £12,224,050
		(from Ottawa)	
U.S. Coin	63,358.411	ounces	
		(from Montreal)	
Bars	395,811.457	ounces standard	}
		(from Ottawa)	
Japanese Coin	249,156.08	ounces do.	

(See "Gold Abroad: Canada")

On the 26th July J.P. Morgan & Co. sold Sterling at 4.77 to liquidate the balance of the outstanding advance, viz., \$12,213,263.35. The total Exchange purchased between the 25th February and this date was \$105,717,652.04. The greatest balance outstanding at any one time was \$42,300,999.87, on the 5th June; and purchases had been made at rates from  $4.76\frac{7}{8}$  to  $4.80\frac{5}{16}$ .

On the 23rd June the Governor arranged verbally with the Chancellor that the Government should take over liability for this advance as from the 24th June, the loss accrued to the Bank on the evening of the

CHAPTER IV  
FOREIGN EXCHANGES

THE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

latter date, including interest, being £58,226:14:10. At the date when the balance was sold this loss stood at £30,694: 7: 4 and interest £7,626: 7: 6. Further purchases were made after 26th July but the arrangement made by the Governor was not placed formally before the Treasury until the 4th August, on which date the Bank wrote setting out the position. By the 14th August no answer had been received and, upon the Bank asking for payment of £4,000,000 in respect of gold shipped to America from their stock, it was understood that the Treasury were not prepared to issue the necessary Write-Off. The Bank thereupon stated that they would assume the responsibility of the Exchange transactions. On the 16th August, Sir John Bradbury advised the Bank that the Chancellor accepted the principle that any net loss on transactions, as from the 24th June, should be borne by the Treasury, but was of opinion that "all transactions for the support of the Exchange, including the sale of gold to New York as from the 24th June, should be brought into account".

It was further suggested that the sterling value of the commencing balance of the Government's account, after the 24th June, should be calculated at the Exchange of the day and that interest should have been allowed to the Government on the sterling credit

CHAPTER IVFOREIGN EXCHANGESTHE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

on this side. The Bank replied that they could not accept these proposals and would prefer to assume full responsibility. They stated, however, that they could do no more to support the Exchange and that if support were desired, some other arrangement must be made.

On the 24th August the Bank informed Morgan, Grenfell & Co. that they had assumed entire liability for the debt and proposed to liquidate it exclusively by gold shipments. Three shipments, aggregating £12,010,379, were made from London\* between the 28th July and the 28th August (per the Cruisers, "Lowestoft", "Carnarvon" and "Argyll").

The loan was extinguished on the 9th September. A balance of \$1,107,860.81 remained in the Bank's favour and this, remitted between the 23rd September and the 2nd October at rates of  $4.71\frac{7}{16}$  and 4.72, amounted to £209,202: 6: 7, a profit which accrued to the Bank. Subsequently, purchases of Exchange were resumed, but upon the formation of the London Exchange Committee in November 1915 this account was taken over by them.

A further advance of £10,000,000 by J.P.Morgan & Co. to the Bank was arranged in July 1915. On the 23rd of that month the Bank wrote to Morgan, Grenfell & Co. promising to begin forthwith to ship

---

\*To New York. Vide Chapter V U.S.A. Section. The gold realised \$58,376,639.08 net (= @  $4.86\frac{2}{3}$  £11,995,364).

CHAPTER IV  
FOREIGN EXCHANGES

THE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

either American Bonds or Gold to New York to cover or repay this loan. The proceeds were evidently to be placed at the disposal of the British Government, but the exact history of the advance is obscure. By the middle of August advices were received from Morgans stating that the situation in America was becoming acute, and suggesting that further U.S. Securities should be got together to cover a call loan of £20 millions. On the 14th August the Bank of England confirmed their letter of the 23rd July, and asked that the Securities shipped, and by then received, might be sold by Morgans, as opportunity offered.

It does not appear however that any of the Securities shipped to America between the end of July 1915 and March 1916 were the property of the Bank, although their total nominal value by the latter date was between £45 and £50 millions. It seems likely therefore that at some period, probably in August or September 1915, the Government had assumed liability for the advance made to the Bank.

The shipments of Securities were carried out through the Bank, and the first 7 consignments were conveyed in cruisers, uninsured, from the 28th July to the 10th October. Early in November the Bank had accumulated

CHAPTER IVFOREIGN EXCHANGESTHE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

£2½ millions of Securities ready for shipment, for which the Admiralty were unable to provide transport. It was therefore arranged that the Securities should be sent by boats of the White Star, Cunard, &c. lines, usually in amounts of about £750,000 at a time. They were still uninsured and the shipping companies agreed to charge no freight. There were 16 shipments (12th November 1915 - 3rd March 1916).

Of the Securities so despatched the Bank had purchased on the market and held for their own account, until the Treasury was ready to pay for them, some £3 or £3½ millions. This was in the beginning, and in order to ensure secrecy as to the Government's intentions. Soon, however, the amounts handled became too large to be dealt with in this fashion and the Bank purchased for Treasury Account. Some £8½ millions were obtained direct from the Prudential Insurance Company and nearly £5 millions of U.S. Steel Corporation 5% Bonds were purchased from four Carnegie Trusts in Scotland at a cost of £5,441,893: 5: -. In payment, £5,441,700 5% Exchequer Bonds 1920 were created and accepted at par, similar issues being made against the acquisition of (much smaller) holdings of American Securities from St. Andrews University and the Church of Ireland. The total

CHAPTER IVFOREIGN EXCHANGESTHE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

amount of Securities acquired, prior to the formation of the American Dollar Securities Committee, amounted to \$233,000,000 (nominal).

The "Chilian" Advance made by J.P. Morgan & Co.

In July 1915 arrangements were made through Morgan, Grenfell & Co. whereby the Chilian Government should be provided with funds to meet their Treasury Bills due on the 4th August 1915. The money was required in London and amounted to £1,200,000.

J.P. Morgan & Co. were ready to advance the equivalent of this sterling, as part of their arrangement with the Bank of England to control the American exchange. Against the sterling advance Morgan, Grenfell & Co. were to hold N.M. Rothschild & Sons' promise to pay at 90 days and the Bank of England were asked to guarantee that upon maturity of the loan J.P. Morgan & Co. should receive back the equivalent of £1,200,000 in dollars at the rate of exchange ruling in July, viz., 4.77. To this the Bank agreed on the 23rd July, and became liable to J.P. Morgan & Co. for \$5,724,000 due 27th October 1915, the maturity date of Rothschilds' promise to pay.

Instead of Morgan's drawing for this amount by cable transfer it was arranged on the 19th October



CHAPTER IVFOREIGN EXCHANGESTHE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

that gold should be forwarded to liquidate the debt. To this Morgans consented, making an advance of the amount @  $3\frac{1}{2}\%$  on the understanding that the gold should at once be shipped. Consignments of gold from London to J.P. Morgan & Co. took place between the 17th and 26th November and consisted of 1,000,000 sovereigns in four instalments, in addition to which United States coin, \$700,000 and 10,580.453 ounces standard of Bar Gold, both held for the Bank at Ottawa, were delivered in November and December to Morgans through the American Express Company.

This gold extinguished the advance and left the Bank with a profit on the transaction of £18,235:3:5, which was taken into account on the 12th January 1916 and subsequently paid over to the Government (vide Profit on gold paid to H.M. Treasury).

With regard to the period immediately preceding the establishment of the London Exchange Committee, a letter from Lord Cunliffe to Mr. McAdoo\*, written on the 13th June 1917 at a time when the question of allowing the American Exchange to break was being considered, may be quoted -

---

\*then Secretary to the Treasury, Washington.

CHAPTER IVFOREIGN EXCHANGESTHE BANK OF ENGLAND'S SUPPORT OF THE AMERICAN  
EXCHANGE 1915

"You will of course remember that during 1915 my  
"Government took all Exchange operations out of  
"the hands of the Bank of England and tried to  
"divorce the payments through Messrs. J. P. Morgan &  
"Co. for Munitions and those for the purchase of  
"Cotton, Foodstuffs, and other commodities through  
"the usual and ordinary Traders. The experiment  
"was not a success and only played into the hands  
"of the speculators and operators in Exchange, who  
"made considerable sums of money owing to the  
"violent fluctuations, and after a few weeks our  
"then Chancellor of the Exchequer appointed a  
"small body of London Bankers and Merchants to  
"rehabilitate the Market and restore confidence."

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

The chief factor which led to the appointment of the Committee, in November 1915, was the unsatisfactory condition of the American Exchange. From February of that year until June the Bank of England had supported the Exchange by arrangement made with Messrs. J. P. Morgan & Co., the operations resulting in a loss to the Bank of about £58,000. In the latter part of June, the Governor of the Bank of England discussed the matter with the Chancellor of the Exchequer, who agreed, so the Governor maintained, that future liability should fall upon H.M. Government. On this point there was, however, a serious misunderstanding, though this did not become apparent until the beginning of August despite the fact that large transactions had taken place in the meanwhile. On the 14th August, as no agreement had been reached in the matter, the Bank informed the Treasury that instructions had been given to Messrs. Morgan to cease supporting the Exchange; at the same time the Bank arranged to send gold to liquidate the dollar Account in New York. An understanding was effected with the Treasury at the end of August, but the Bank of England did not conduct any more operations to stabilise the Exchange; the transactions already carried out were, owing to the shipments of gold, converted from a loss into a profit, and this accrued to the Bank.

The effect of the cessation of support was immediately apparent in the heavy fall in the Exchange,

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE

a fall only recovered to a certain extent when it became known early in September that the Bank of England, acting on behalf of H.M. Treasury, were purchasing large blocks of American Securities and, in October, by the successful negotiations for the \$500,000,000 Anglo-French Loan. The need for systematic control, such as had been exercised prior to the middle of August by the Bank of England, became increasingly apparent and eventually, under pressure from the Bankers, the Treasury agreed to the appointment of the Exchange Committee.

The terms of appointment of the Committee were laid down in a letter from the Chancellor of the Exchequer dated the 18th November 1915, which read as follows -

"You have at my request agreed to act as a  
"Committee for the regulation of the foreign  
"exchanges, and in order to assist you in your  
"operations I undertake to place at your absolute  
"disposal (a) all the Gold which is now in the  
"possession, or may during the period of your  
"operations come into the possession, of His  
"Majesty's Government, (b) all the proceeds still  
"to be received from the recent loan in the United  
"States, and from any further loan or credit to be  
"contracted abroad in any form and from the sale  
"abroad of any Securities by or on behalf of His  
"Majesty's Government during the said period; and

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

"(c) any American, Colonial or other foreign  
"Securities which may be bought or borrowed or other-  
"wise acquired by or on behalf of His Majesty's  
"Government during the said period for the purpose  
"of exchange operations.

"You are to be at liberty to deal with or  
"dispose of all such Gold, Moneys and Securities  
"either directly or through your agents in any man-  
"ner that you may think fit, and you are to take  
"charge of and carry into effect all Exchange  
"operations that may be necessary for His Majesty's  
"Government. You are also to respond, for the pay-  
"ment of all debts contracted abroad, or payable to  
"people resident abroad, by or on behalf of His  
"Majesty's Government, for which purpose I shall lay  
"before you from time to time the fullest particulars  
"that I can procure with regard to such debts.

"His Majesty's Government will seek the  
"authority of Parliament to reimburse to you any  
"actual out-of-pocket expenses incurred by you and  
"your agents in connection with the above operations,  
"but you will receive no remuneration and any profit  
"resulting from your operations will accrue to His  
"Majesty's Government.

"His Majesty's Government will also ask  
"Parliament to indemnify you each and all and hold  
"you harmless for all losses, costs, damages and  
"claims which you may incur on account of anything  
"you may do or omit to do in connection with the

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

"operations which you are to undertake as aforesaid."

The Committee was extensively used in a consultative capacity but it was found in practice that the very wide powers with which the Committee was invested were not capable of entire fulfilment. This was due to the fact that to exercise such vast control, a task really sufficient for a separate Government Department, the members of the Committee would have had to give their whole time and energies to the work, which was impracticable. The majority of the Committee realized that the terms had been granted at a time of great urgency without sufficient deliberation.

It was owing to the insistence of Sir Edward Holden that such extensive powers were agreed to, as he informed Mr. McKenna, the Chancellor of the Exchequer at that time, that otherwise he would decline to serve on the Committee. When Mr. Bonar Law was appointed Chancellor in 1916, it became necessary to reaffirm the terms of appointment and he expressed amazement that such powers should have been placed in the Committee's hands. He wished to draw up amended terms of reference but, when it was suggested to him that a curtailment would be taken as a vote of censure on the Committee, he agreed to leave matters as they were, taking into consideration the fact that the Committee in practice only claimed reasonable powers.

Throughout the period of their appointment, the Committee in attempting to carry out their

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

functions were much hampered by a lack of information from Government sources, a fact to which they frequently drew attention but without any very definite or permanent result.

The Committee consisted of -

Lord Cunliffe, then Governor of the Bank  
of England. (Chairman)

Mr. Brien Cokayne, then Deputy Governor of  
the Bank of England.

Sir Edward H. Holden, Bart.

Sir Felix O. Schuster, Bart.

Sir Edward Holden, although still nominally a Member of the Committee, did not attend the Meetings after January 1916.

Mr. Gaspard Farrer of Messrs. Baring Bros. & Co. Ltd., joined the Committee in May 1916 and in August 1917 Mr. Stanley Baldwin, Financial Secretary to the Treasury, also became a Member owing to the need which existed for closer intercourse between the Treasury and the Committee. Mr. Baldwin took the Chairmanship at Meetings held in the Treasury; Lord Cunliffe at Meetings in the Bank of England.

In November 1917 the Hon. Sidney Peel of the Foreign Office joined the Committee.

In April 1918 Mr. Baldwin's place, as Representative of the Treasury, was taken by Mr. Hugh G. Levick of the Treasury and it was arranged that the Governor of the Bank of England should in future be

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

Chairman of the Committee ex officio. No further changes took place in the constitution of the Committee.

For a considerable period Meetings were held daily; in all some 706 took place.

In the spring of the year 1916, Lord Cunliffe visited the United States of America as a Member of the Financial Mission sent there at that time.

In April 1917, Mr. Gaspard Farrer went to Holland to discuss arrangements to meet the very difficult financial situation which had developed there.

In December 1917, Lord Cunliffe was selected by the Treasury to be the head of a Financial Mission which was sent to Spain for the purpose of negotiating a Loan.

The Committee was dissolved on the 31st December, 1919.

Special sections follow dealing with the work of the Committee in connection with the -

American Exchange  
Argentine Exchange  
Dutch Exchange  
Indian Exchange  
Scandinavian Exchanges  
Spanish Exchange  
Swiss Exchange



CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

In addition, the Committee carried out large purchases of Exchange on Hongkong to provide funds for the purchase and hire of ships.

The lowest quotations during the War for the undermentioned exchanges were:-

<u>Country</u>	<u>Parity</u>	<u>Lowest Quotation</u>	<u>Date</u>
Holland	12.10 $\frac{3}{4}$	9.02	8. 8.18
Spain	25.22 $\frac{1}{2}$	15.87	15. 4.18
Switzerland	"	18.40	18. 5.18
Sweden	18.159	10.00	3.11.17
Norway	"	11.95	"
Denmark	"	11.92	"

(Taken from Bankers' Magazine)

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICAN EXCHANGE.

Shortly after the formation of the Committee an Agreement was concluded between a group of British Bankers and a group of American Bankers for a Loan of \$50,000,000, the proceeds of the Loan being placed at the disposal of the Committee for the purpose of supporting the Exchange in such manner as they might think fit.\* The method of employment of the Loan was the subject of considerable discussion but eventually it was decided to place the whole amount on deposit, equally divided between the National City Bank, the Bankers' Trust Company and the Guaranty Trust Company as, in the opinion of the Committee, the fact that the money was so held would have a powerful effect in keeping Exchange steady. The money remained on deposit until July 1916 when it was transferred to the Account of the Treasury, the Loan eventually being paid off in June 1917 by the transfer of gold supplied by the group of British Bankers in whose name the Loan was negotiated.

The Committee were intimately concerned with the introduction of the various schemes for the mobilisation of Securities for sale or loan to the Treasury; the Securities were used almost entirely in America, being either sold there or deposited as collateral in connection with money borrowed in the United States either in the form of Public Issues or in the form of Bankers' Loans.

---

\*Vide Treasury Minutes dated 17.11.15 and 27.5.16, about £10,000,000 4½% War Loan was deposited at the Bank of England as Security for this Advance.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

The Committee started to give support to the Exchange immediately on appointment and the quotation was gradually raised to  $4.76\frac{1}{2}$ , the figure considered to be the outgoing gold point. It was determined to "peg" the Exchange at this figure and this aim was in fact realised as, until the control was removed in March 1919, Messrs. J. P. Morgan & Co., acting on behalf of the Committee, purchased all Exchange which was offered at  $4.76\frac{7}{16}$ . Very few Exchange dealings were effected in London by the Committee as it was only found to be necessary to lend support here when the quotation fell away from that in New York, which happened very rarely. The Committee discovered, shortly after their appointment, that some of the larger Government Departments, such as the Ministry of Munitions, War Office, Sugar Commission, &c., were buying dollars in the London Market and through different channels; immediate steps were taken to stop this practice and arrangements were made under which dollars were supplied direct from the Account of H. M. Treasury with Messrs. J. P. Morgan & Co. This course removed from the London Market practically the only large dealings.

The dollars required to finance the Exchange transactions were provided by funds borrowed through Messrs. J. P. Morgan & Co. on call Loans from Bankers and by transfers from the Account of H. M. Treasury to the Exchange Account (which stood in the name of the Bank of England) when the overdraft on the latter Account

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

became too large, and by gold shipments. The Treasury Account in turn was fed by the proceeds of Public Issues, sales of Securities, gold shipments, money borrowed from various quarters, &c. Amongst other sources, dollars were borrowed from the Danish Government and also from the Japanese Government. In the case of the Japanese Government the money was borrowed against sterling Treasury Bills bearing a guaranteed Exchange; also, the proceeds of Yen Treasury Bills and Exchequer Bonds issued in Japan by the British Government were converted into dollars supplied by the Japanese Government.\* Several British Corporations issued Bills in America and sold the dollars to the British Treasury.

As previously stated, the Exchange Account in New York stood in the name of the Bank of England, in whose name also the call Loans required to finance the Account were negotiated; the name of the Exchange Committee could not be accepted in New York as "obligor". The Bank of England received a covering guarantee from H.M. Treasury. In August 1917, arrangements were, however, made to close the Account in the name of the Bank of England and to open a similar Account in the name of H.M. Treasury.

The record of Exchange purchased and sold on behalf of the Committee (at the end of this Section) will show the magnitude of the sums expended in the stabilization of the American Exchange.

---

\*Vide Correspondence Files 493/9, 493/10 and 493/135

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

The Exchange Committee were successful, in conjunction with the Bank of England and the Cornhill Committee (after experiencing much difficulty in bringing the Treasury into agreement with their views), in getting restrictions placed upon Underwriters to prevent them insuring shipments of gold from Neutral Countries, having in mind particularly the United States; the Committee's view was that any gold taken from America would ultimately have to be replaced from the United Kingdom. An intimation was also sent to Bankers and to Shipping Companies that such shipments ought not to be facilitated. On representations from the Foreign Office, the restrictions, after being in force for a short time, were removed so far as the Underwriters and Shipping Companies were concerned, owing to fear of diplomatic trouble with America; but within three months the United States Government issued a regulation prohibiting exports of gold from the United States and her territorial possessions except under licence. This regulation was largely due to Lord Cunliffe who, after his return from America, stated that he had discussed with Mr. McAdoo, the Secretary to the United States Treasury, and also with the Federal Reserve Board the question of preventing the shipment and insurance of gold from America, and that both Mr. McAdoo and the Federal Reserve Board were much in favour of this policy though the British Embassy did not support it. The matter was accordingly

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

taken up by the Treasury with the United States Government and, as a result, the regulation previously referred to was passed.

The most critical period in the history of the American Exchange occurred after the statement issued on the 27th November 1916 by the Federal Reserve Board\*cautioning Federal Reserve Banks against locking up Funds in obligations of Foreign Governments. So seriously was the situation viewed by the Committee that an interview was arranged with the Chancellor of the Exchequer chiefly for the purpose of discussing whether support of the Exchange should be continued. The Chancellor placed the matter before the Cabinet War Committee who summoned the Exchange Committee before them. As a result of the discussion the Cabinet War Committee decided to continue to hold Exchange at 4. 76½. The Cabinet also decided to cable to the French and Italian Governments informing them of the situation which had arisen and urging the necessity for sending more gold to America and for curtailing drastically contracts for purchases there. Owing, however, to the political situation, due to the resignation of the Government, the telegrams drawn up by the Exchange Committee were held up for some days as there was no one connected with the Government who would take the responsibility for sending them. Eventually the Committee sent the telegrams themselves through diplomatic channels.

---

\*Vide Appendices.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

Early in December 1916 the Committee wrote to the Chancellor urging upon him "the vital necessity for taking, without the least delay, any step whatsoever which may tend to alleviate the position; otherwise . . . . . nothing but disaster can result". The Committee set out various suggestions to which they considered immediate effect should be given and concluded the letter by saying that "so far as the Committee can judge by opinion in the City, the people of this Country will be willing to do anything you recommend as necessary for the successful termination of the War".\*

Later in December the Committee considered the possibility of obtaining compulsory powers which would enable all balances, Securities, property, &c., in America belonging to British Subjects, Banks, Corporations, or to other businesses of British ownership, to be acquired, should occasion arise, by purchase by the Treasury, or to be deposited on Loan with the Treasury. After several discussions a letter on these lines was written to the Chancellor suggesting that power be taken to vest any property (not only American property) in H.M. Government, but effect was not in the end given to the proposals other than to take compulsory powers to acquire Securities necessary for regulating the Foreign Exchanges.

Messrs. Morgan were much in favour of an arrangement under which Banks in London would guarantee

---

\*On the 15th December the Committee wrote to the Food Controller urging curtailment of imports owing to difficulty of paying for them.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE

AMERICA

Exchange on American Funds deposited in London, the Banks to receive a covering guarantee from H.M. Government; they regarded such an arrangement as essential in order to prevent the bulk of American deposits from being withdrawn from London. The Committee did not, however, consider such a scheme to be practicable and the proposal was abandoned without the ill effect anticipated by Messrs. Morgan.

In January 1917, Messrs. Morgan suggested that a portion of the Government purchases in America might be financed by drafts drawn in dollars by the Contractors on British Banks, the latter to be guaranteed by H.M. Government. The Committee did not favour the proposal but, when the matter was brought forward a second time by Messrs. Morgan, it was agreed to obtain the Bankers' opinion. As the Committee anticipated, the Bankers were averse from incurring any further dollar liability and stated that they would really prefer to part with gold rather than adopt the suggested form of credit.

The advisability of issuing British Government Treasury Bills in New York, which was discussed in the latter months of the year 1916, was brought forward again by Sir Hardman Lever (the British Treasury Representative in New York) in March 1917, at the instance of Messrs. Morgan. The Exchange Committee had always been averse from the issue of Treasury Bills in America; on this subject they had



CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

written to the Treasury in November 1916 saying that  
"One result of the issue of the Bills in America will  
"undoubtedly be the withdrawal of American money  
"employed here at the present time: indeed, the  
"Committee have already learnt of arrangements being  
"made by American Houses for the calling of money  
"from the London Market. The Committee fear also  
"that the issue of a large quantity of short-dated  
"obligations will, in effect, place this Country  
"financially very much in the hands of the United  
"States and they feel that they cannot too strongly  
"insist on the danger of a short-term obligation in a  
"foreign currency and in the hands of foreigners  
"ignorant of conditions here and without the founda-  
"tions of faith in our credit inherent in a British  
"subject. Further, the issue of Treasury Bills will  
"diminish the chances of obtaining further long term  
"Loans in America". While adhering to their  
previous opinion that such issues were undesirable,  
the Committee now agreed that as a Bond Issue was  
impossible the Treasury could not do otherwise than  
issue Bills.

The entry of America into the War in April  
1917 relieved the great difficulty which was being  
experienced in raising dollars as large credits were  
at once placed at the disposal of the British  
Government by the United States Treasury to meet the  
most pressing needs.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

Early in August 1917 arrangements were made, as previously stated, with H.M. Treasury to close the Exchange Account with Messrs. Morgan standing in the name of the Bank of England, and from that time money expended in support of the Exchange was charged to the Account of H.M. Treasury in New York.

In the autumn of 1917 the Committee suggested the necessity of prohibiting the export of capital (having exports to the United States particularly in view) and as a result the Treasury issued regulations to the desired effect.

On the 18th March 1919 the Exchange Committee, at the request of the Chancellor of the Exchequer, attended a Meeting to consider whether the stabilization of the Exchange should be continued. Besides the Chancellor of the Exchequer, Sir John Bradbury and Sir Auckland Geddes were also present. After a very lengthy discussion, it was agreed to withdraw the support from the Exchange.

A record of the Public Loans issued in America by the British Government up to the close of the year 1919 is appended.

From the point of view of the British Government, the American Exchange was, of course, by far the most important Exchange. Although the Committee took a leading part in various arrangements made for the support of the Exchange and for the provision of dollars in America yet, owing to the fact

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

AMERICA

that the British Treasury established their own Representative in New York, many questions were naturally settled and negotiations carried out without reference to the Committee. For this reason they had not so intimate a knowledge of the situation in America as they had, for instance, of affairs in Holland; it is consequently impossible from the records of the Committee to make the account of this Exchange so full as its importance would justify.

## CHAPTER IV

## FOREIGN EXCHANGES

## LONDON EXCHANGE COMMITTEE

## AMERICA

## Purchases and Sales of American Exchange

	Exchange purchased in New York or sold in London	Exchange sold in New York
1915		
November	£1,345,000	-
December	650,000	£2,496,368
	<u>£1,995,000</u>	<u>£2,496,368</u>
1916		
January	£135,000	£1,828,177
February	1,102,648	300,000
March	-	4,360,000
April	-	4,890,000
May	9,674,864	-
June	11,220,000	-
July	4,685,000	-
August	13,395,000	-
September	13,465,000	-
October	17,775,000	-
November	25,230,000	-
December	44,270,000	-
	<u>£140,952,512</u>	<u>£11,378,177</u>
1917		
January	£10,800,000	-
February	31,340,000	-
March	13,275,000	-
April	15,620,000	-
May	37,170,000	-
June	55,090,000	-
July	20,270,000	-
August	22,745,000	-
September	34,395,000	-
October	26,715,000	-
November	27,815,000	-
December	27,715,000	-
	<u>£322,950,000</u>	<u>-</u>
1918		
January	£17,440,000	-
February	13,435,000	-
March	10,715,000	-
April	3,140,000	-
May	4,270,000	-
June	8,235,000	-
July	4,920,000	-
August	-	9,730,000
September	-	3,505,000
October	-	2,215,000
November	2,400,000	12,195,000
December	2,970,000	3,175,000
	<u>£67,525,000</u>	<u>£30,820,000</u>
1919		
January	-	£4,580,300
February	£7,150,000	650,000
March	16,935,000	-
	<u>£24,085,000</u>	<u>£5,230,300</u>
Total	<u>£557,507,512</u>	<u>£49,924,845</u>

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE  
PUBLIC ISSUES IN NEW YORK

AMERICA

£500,000,000 Anglo-French 5-Year 5% External Loan

issued 15th October 1915 @ 98, the  
 Loan being a joint obligation of the  
 British Government and the French  
 Republic.

£250,000,000 2-Year 5% Secured Loan Gold Notes issued

1st September 1916 @ 99.

£150,000,000 3-Year 5½% Secured Loan Gold Notes

issued 1st November 1916 @ 99½.

£150,000,000 5-Year 5½% Secured Loan Gold Notes

issued 1st November 1916 @ 98½.

£100,000,000 1-Year 5½% Secured Loan Convertible Gold

Notes issued 1st February 1917 @ 99.52.

£150,000,000 2-Year 5½% Secured Loan Convertible Gold

Notes issued 1st February 1917 @ 99.07.

£142,901,000 20-Year 5½% Gold Bonds issued 1st

February 1919 in exchange for 1- & 2-Year  
 Secured Notes.

£101,620,900 3-Year 5½% Convertible Gold Notes issued

1st November 1919 @ 98, due 1st  
 November, 1922.

£148,379,100 10-Year 5½% Convertible Gold Bonds

issued 1st November 1919 @ 96½, due  
 1st August 1929.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

ARGENTINE.

In July 1916 the Treasury made an arrangement with certain London Banks for accepting Bills drawn to finance purchases of meat. The Banks in South America did not, however, view the arrangement with favour as it tended to decrease the popularity of drafts drawn by themselves on their London Offices; the Bills drawn were accordingly, on the advice of the Committee, not renewed at maturity, the scheme being allowed to lapse.

In the autumn the Committee considered the question of raising a Loan in the Argentine but formed the conclusion that a Loan would be impracticable as the Argentine was essentially a borrowing Country. The Committee urged upon the Treasury the necessity for the curtailment of imports.

In October 1917 tentative proposals for a Loan were received through Messrs. Leng Roberts & Company, Messrs. Baring Brothers' correspondents in the Argentine, in which it was stated that £10/20,000,000 for six months might possibly be obtained against Argentine Securities. The proposal was referred to the Treasury who, agreeing with the Committee that a Loan of so short a currency was useless, requested them to ascertain what prospects there were of obtaining a longer-dated Loan, adding that large importations of wheat from the Argentine early in the following year would be absolutely required if the populations of France and Italy were to be adequately fed. The Committee suggested that a joint financial Commission of the

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

ARGENTINE

Countries interested should be formed to negotiate the arrangements for finance and pointed out that it seemed impossible that the surplus wheat crop could be lifted without employing the tonnage in the control of the Allies, so that the financial Commission would be in a strong position to negotiate.

A conference on the subject took place with the French Minister of Finance and the Assistant Secretary to the United States Treasury; as a result the British and French Ministers in Buenos Ayres were instructed to suggest to the Argentine Government that that Government should formulate a plan whereby obligations of Great Britain and France would be issued to an amount representing the purchase price of the Argentine exportable cereals and be made the basis for the issue of Argentine circulation.

Eventually, in January 1918, a Convention was concluded between the British, French and Argentine Governments for an advance of 200,000,000 Argentine gold dollars carrying interest at 5%. The Loan had a currency of 2 years but the Argentine Government were given the right to draw against the British and French Governments, respectively, up to a total of 100,000,000 dollars in each case when the rate of exchange on England did not exceed 50d. or on France 5 francs 60 centimes, subject to an undertaking that the proceeds would not be utilized to meet direct or indirect remittances to the United States of America.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

ARGENTINE

The Loan was still outstanding at the close of the year 1919 and was renewed for a further year from January 1920.

In the spring of 1920 the Bank negotiated a fresh arrangement for the Treasury through Messrs. Baring, under which, in May, the British Government advanced \$50,000,000 in New York to the Argentine Government to meet Bills maturing there; the British Treasury undertook not to call for the repayment of the Loan until the 14th January 1921, the due date of their own obligation, when it would be used to cancel an equal amount of that debt. The balance of the British Government's engagement was met by their making themselves responsible for the service and amortization of certain Argentine Bonds, until the extinction of the balance. (vide folder 493/134.)



CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

DUTCH EXCHANGE.

In January 1916 the Committee started to give support to the Dutch Exchange. The operations at first were conducted through the London County & Westminster Bank, Ltd., but it was decided early in April 1916 that it would be necessary to select a Firm in Amsterdam to operate on behalf of the Committee and an account was opened with Messrs. Hope & Co. for this purpose, in the name of Baring Bros. & Co. Ltd.\*

An Agreement was reached in March 1916, after considerable negotiation, with a group of Dutch Bankers for the liquidation of sterling balances held in London on Dutch account amounting in all to some £7,000,000, the liquidation to be effected by means of the payment of £1,800,000 in gold and the balance by the issue of 12 months Sterling Treasury Bills bearing an option of repayment in Florins at the exchange of Fls. 12. The Bills bore the endorsement of the Bank of England to the effect that they would be repaid either in sterling or florins; the Bank's endorsement was necessary in order to make the Bills available as collateral with the Netherlands Bank for which purpose two signatures to the Bills were required. The Treasury gave the Bank of England a covering guarantee in respect of this endorsement. The Javasche Bank, whose balances formed part of those dealt with, were also given an undertaking that no obstacle would be placed in the way of shipment by them to Holland, as

---

\*In July 1917, at the request of Barings, the title of the account was altered to London Exchange Committee.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

and when required, of the £1,000,000 earmarked gold held by Lloyds Bank on their behalf and also a further £500,000 gold set aside under this arrangement.

A separate agreement was concluded with the Anglo-Saxon Petroleum Company and the Asiatic Petroleum Company, who had funds in London estimated to reach £6,000,000 by the end of June 1916. It was agreed to sell the Companies £500,000 forward Exchange at 11.90 and also £1,500,000 Treasury Bills due in January 1917, payable either in florins at 11.90 or in sterling. On their side the Companies agreed that, apart from certain stated payments to be made in England, the balance of their funds should remain invested in Sterling Treasury Bills until the end of the year, and that they would not purchase any exchange on Holland before January 1917, unless for exceptional transactions of inconsiderable amount, the details of which they would submit to the Committee for approval.

The chief demands on the Dutch Exchange arose through payments for Java Sugar, for produce purchased in Holland, and for remittances made by Messrs. Baring Bros. & Co. on account of the Russian Government to cover the payment in Holland of coupons on Russian Government Bonds, and through large offerings of sterling on Scandinavian account through Holland. The payments for Russian coupons were largely effected by means of the export of gold as

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

soon as the weakness in the Exchange became very pronounced, though later the Committee arranged to supply the florins; and with regard to the other payments the Committee concluded various arrangements for the issue of yearling Treasury Bills, usually at 5% discount, bearing a guaranteed rate of Exchange, and also for the issue of Exchequer Bonds similarly payable both as to principal and interest in sterling or florins. In 1916, for instance, £4,950,000 Treasury Bills with a guaranteed Exchange of Fls. 12 were issued in payment for Java Sugar. Sterling acceptance credits for large sums were also arranged to finance portions of the Sugar Crcp, the Agents of the Sugar Commission drawing for the purpose on certain London Bankers.

The Foreign Office, the Restriction of Enemy Supplies Department, the Ministry of Food, &c., entered into various Agreements for the purchase of agricultural produce in Holland and the Dutch Fisheries catch, and payments arising therefrom were a frequent drain upon the resources available; so much so that the Committee, who questioned the wisdom of this method of food blockade\* (in view of the extreme difficulty of providing foreign currency even for absolute necessities) frequently protested against the Agreements in cases in which the produce was not urgently required for consumption in this Country. The Committee often had cause to complain that an Agreement was concluded first, the method of payment

---

\*Vide also correspondence between Foreign Office and Bank, October 1916. (C. C. O. 490)

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

being left for subsequent arrangement.

The Committee besides actually effecting payments, as previously stated, in Treasury Bills and Exchequer Bonds also sold similar Treasury Bills for florins and purchased in London any Securities which would command a sale in Amsterdam, the total so purchased being about £5,500,000 in value; Exchange was also sold when opportunities occurred and large sums were provided in this manner. The largest block of Securities bought was purchased at a cost of approximately £4,250,000 as the result of a requisition of Royal Dutch Petroleum Shares by H.M. Treasury on the advice of the Committee.

Beginning with May 1916 shipments of gold were also made, the total reaching £2,200,000 by the end of July, after which date no further shipments had to be made for nearly a year, when heavy maturities of Treasury Bills necessitated big exports of gold which continued until April 1918, by which time the bulk of the Treasury Bills had been repaid. In all some £16,000,000 gold was sent direct by the Committee and in addition about £500,000 through the London County & Westminster Bank, Ltd., in connection with operations for the support of the Exchange carried out for the Committee; also £1,350,000 was despatched through Messrs. Baring to provide for part of the florin requirements of the Russian Government, the gold being sold at an exchange based on the rate ruling at the time, the profit on the transaction

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

being paid to the Committee. In 1916 shipments were sent in small amounts not exceeding £50,000 per boat and were sent unaccompanied. In May 1916, a ship\* carrying £46,000 in gold on behalf of the Committee was sunk either by mine or torpedo close to the Goodwin Sands, but the gold was subsequently recovered by the Admiralty. In June 1917 when shipments of gold were resumed, the submarine menace had become so acute that the convoy system had been adopted by the Admiralty, ships being sent over to Holland in batches of five or more. The Committee then decided, in face of the urgency of sending gold to Holland and the infrequency of the shipments, to raise the maximum which might be sent in any one ship to £250,000. In view of the necessity for secrecy both in regard to the despatch of a convoy and to the fact that the ships carried gold it was impossible to make arrangements in advance for the transport of gold from the Hook of Holland to Amsterdam; the Committee decided therefore that a Representative of the Bank of England should travel on each ship which carried gold and accompany the consignment to Amsterdam, making the best arrangement possible for the journey from the Hook. Later, when the shipping danger increased still more, instead of shipments being accompanied, a Bank of England Representative was stationed in Holland, met the ships on arrival and saw to the safe conveyance of the gold to Amsterdam. The journey from the Hook of Holland was accomplished by means of

---

\*Batavier V.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

barges and was attended by some risk owing to the nearness of the German Frontier. Despite the dangers of the voyage and canal journey no loss was incurred and the various consignments of Securities also reached Amsterdam in safety.

By the end of the year 1916, over £15,000,000 Treasury Bills payable at a guaranteed Exchange had been issued, the greater part of which fell due in the first half of 1917, and the Committee were faced with the serious problem of renewal or payment. During the autumn of 1916, they had managed to accumulate a substantial balance in Holland, amounting at the beginning of the year 1917 to some Fls. 32,000,000; the Committee felt that the possession of a large balance would be a powerful lever in their hands in the negotiations for renewal of Bills. Messrs. Hope were given instructions from time to time to purchase Treasury Bills in the Market for account of the Committee at varying rates of discount in order to maintain a free Market and to improve the rate at which renewals could be placed. By March 1917 the Bills issued had reached a total of £15,641,000, a figure which was regarded as far too large for the Dutch Market, and from that time it was resolved to effect a steady reduction in the total outstanding. Arrangements were made, after much negotiation, to renew the largest holdings of Bills either in whole or in part; the wording of the endorsement to the renewal Bills was altered, to comply with the wishes

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

of the Netherlands Bank, so as to give the holder, besides the option of payment in florins at maturity, the option of receiving payment in London at any time under discount at 5% provided that the Exchange was at 12.15 or above. The renewal of £2,000,000 Bills held by the Javasche Bank was only agreed to by that Bank after the promise of £500,000 Raw Gold in India against payment in sterling in London.

As a safeguard against any difficulty which might be caused through shipments of gold to Holland becoming impossible an arrangement was made with the Netherlands Bank under which they agreed to place florins to the credit of the Committee against the deposit of gold in New York\*. So seriously was the financial situation in Holland viewed about this time that the Committee arranged in April for Mr. Farrer to visit Amsterdam and this Agreement with the Netherlands Bank was the most important result of his journey though, as matters turned out, it never became necessary to put it into operation. The difficulties in Holland were accentuated by the fact that it was impossible to sell there American or Colonial Railroad, &c., Securities, as had been done in the United States, because no dealings were permitted in Securities introduced since the War other than Dutch Securities or Securities for which special sanction was received as, for instance, the Exchequer Bonds to which subsequent reference is made. In

---

\*Vide C.C.P. 166 p. 68

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

June 1917 shipments of gold were commenced again, a shipment of £1,000,000 being despatched in the middle of the month. From this time until the spring of 1918 frequent shipments took place, the last shipment being made in April 1918.

By the end of the year 1917 the Treasury Bills had been reduced below £9,650,000 and the steady reduction was continued during 1918 so that in December the total outstanding was below £5,000,000. The renewal of £1,500,000 Bills held by the Javasche Bank was only effected in 1918 after extending to them the same facilities for shipping to Holland during the currency of the Bills the £1,000,000 earmarked gold held in London and also agreeing to sell them, if desired, a further £500,000 Raw Gold in India against payment in florins\*.

The balance of the Treasury Bills outstanding was repaid during the year 1920.

In the autumn of 1917 £1,950,000 5% three year Exchequer Bonds, payable both as to principal and interest in sterling or florins at Fls.12, were issued at 97½ less 1% commission to provide payment for Java Sugar. The Bonds also contained a clause giving the option of repayment in sterling at Fls.12 at any time provided that the rate of exchange for cable transfers on London was at or above Fls.12.15, the surrender value of a Bond being calculated at 98%, 99%, 100% according to the year in which it was surrendered, viz.,

---

\*In March 1918 a proposal was made to tighten the blockade by threatening to prevent allied banking houses from having transactions with neutral bankers suspected of certain specified dealings with the enemy. The London Exchange Committee resisted the suggestion as likely materially to interfere with the Government's ability to obtain credit in neutral countries, especially Holland.



CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE

HOLLAND

1918, 1919, or 1920.

At the end of the year 1918, the Committee started to buy up these Exchequer Bonds in the Market and on the 31st December 1919 there remained only £742,800 Bonds outstanding.

Shortly before the Armistice negotiations were initiated by the British, French, Italian and United States Treasuries for a loan of Fls.175,000,000 from the Dutch Government, of which the British share was to be Fls.75,000,000, and an Agreement was signed early in December 1918.

The British portion of the loan was made against 5% Exchequer Bonds issued at par and drawn in florins but having an option of repayment in sterling at Fls.12: the Bonds also carried an option of repayment in sterling at the same exchange at any time in the event of the cable transfer rate on London being at or above Fls.12.15. The Bonds were repayable at any interest date on three months' notice being given by the British Treasury and in any case not later than 31st December 1923.

The object of the Loan was to provide payment for the outstanding Treasury Bills issued in Holland (at that time amounting to Fls.58,468,000) and the proceeds of the Loan were specially earmarked for this purpose. Owing, however, to the large credit balance (referred to again later) which the Committee accumulated in Holland in the early part of 1919, only Fls.50,000,000 was borrowed and the Bonds issued

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

thereagainst were repaid on the 31st December 1919.

At the beginning of their operations the Committee had in view the raising of the exchange to 11.90, the figure then considered to be the gold point; but by August 1916 they felt that they must modify their programme and be content to keep exchange comparatively steady, endeavouring to prevent sensational movements. After the year 1916, little direct support was given to the Exchange in the open Market though the rate was indirectly assisted by the Committee's operations and by the fact that Government Departments were supplied with florins from the Account of the Committee instead of competing for Exchange in the Market. All payments on behalf of the Government were made by the Committee and all florin receipts were similarly credited to the Committee.

After the Armistice, the rate rose sharply and during the next few months heavy sales of sterling in Amsterdam and purchases of florins in London were effected. In addition, large florin sums were received at this time on account of sales of bacon to the Dutch Government, sales of Royal Dutch Petroleum Company Shares, sales of coal, and through the receipt of florins from the German Government for the purchase of food. Indeed, so strong did the financial position become that in April 1919 the Cash balance of the Committee exceeded by some Fls. 40,000,000 the Exchequer Bonds and Treasury Bills outstanding. Purchases of

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

HOLLAND

Treasury Bills and Exchequer Bonds were effected in anticipation of maturity whenever a favourable opportunity occurred and at the end of the year 1919 the only unredeemed obligation in Holland was the balance of the Exchequer Bonds due in November 1920, referred to previously, for which florins had been set aside. The surplus balance on the Account of the Committee was used in part to buy Swiss Francs to meet Loans falling due in Switzerland and the remainder was remitted to London, the Exchange Account being closed in January 1920.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

INDIAN EXCHANGE.

On the 29th June 1917, the Government of India issued an ordinance under which they took powers to acquire all imports of gold, at Rs.15 to the £ in the case of sovereigns, and in the case of bullion at Rs.1 for 7.53344 grains troy of fine gold, this being the equivalent of £3:17:10½ per ounce standard. The Government of India stated that "The object . . . . . is "not in any way to interfere with trade remittances "but to ensure that such gold as is imported is used "in the most effective way possible to strengthen "India currency position. Gold so acquired will be "placed in the Paper Currency Reserve, where it will "increase the metallic backing to the note issue, and "will, if it is in the form of sovereigns, be readily "available for use as currency when necessary."

In September the Committee were consulted by the Chancellor of the Exchequer and by the India Office regarding a proposed change in the price fixed by the Indian Government for the purchase of gold, the suggestion being that an addition should be made to the gold parity which would allow for costs of freight, insurance and interest on gold shipped from the United States of America. The India Office wished to fix a rate which would induce gold to come into India, but recognised that they ought to avoid placing a premium on gold. The object was to fix a price so that persons wishing to bring gold into India might secure no advantage as compared with a purchase of India

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

INDIA

Council Drafts, but might bring it in if they wished to do so. The prices for India Council Drafts had been raised at the beginning of September to  $1/4 \frac{29}{32}$  for deferred telegraphic transfers and  $1/5$  for immediate telegraphic transfers.

The Committee held several meetings on the subject, one of which was attended by the Secretary of State for India, and they also discussed the matter with certain India Office Officials and the Indian Banks. As a result the Committee decided that they were against any addition to the gold parity calculated to correspond exactly with the alteration of the sterling value of the rupee in London. Their opinion was that it would be dangerous to adopt the course of adding an allowance for freight, insurance and interest as such a step would constitute a premium on gold as compared with the sterling value of the rupee; would attract gold from neutral countries and lead to offers, and consequently depreciation, of the sterling exchange on those countries.

The advice of the Committee was, however, not followed as the Government of India adopted the practice of making an allowance for shipping charges when altering their buying price for gold from time to time. It is impossible to determine to what extent this action affected the neutral exchanges, but it is believed that it did not lead to offers of gold, probably owing to the difficulties attending shipment.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIAN EXCHANGES.

In the early spring of 1916 the position in Scandinavia became very difficult owing to the heavy purchases made there chiefly by the Board of Trade, Restriction of Enemy Supplies Department. Exchange started to fall rapidly and by June had depreciated in the case of Norway so low as 15.67, the exchanges with Sweden and Denmark being little better.

Norway

Messrs. Hambro acted as the Banking Agents of the Board of Trade and the Government in Scandinavian matters, and in March 1916 a shipment of £500,000 in gold was made to Norway through them to provide funds for the purchase of Norwegian Fish and Oils, the profit on the gold shipment going to the Committee. This was followed early in April by a request from the Treasury for the provision of a further £1,500,000 for the same purpose, a demand to which the Committee took great exception. They called the attention of the Treasury to the practice which appeared to exist by which purchases were concluded on behalf of Government Departments before the finance had been arranged, and requested that instructions might be issued that no further purchases should be made unless payment by means of Securities (bearing if necessary a guaranteed rate of Exchange) had been previously arranged, and unless the necessity for a purchase at all was extreme. The Treasury agreed with the views of the Committee but requested that gold might be shipped to provide the funds then required as there was no time to arrange

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

any other form of payment. The question of the means of payment had, however, been left so late by the Board of Trade that it was found to be impossible to ship such a sum to meet the various payments as they fell due and eventually it was decided, though only under strong protest from the Committee, to earmark at the Bank of England a large portion of the gold on account of the Norges Bank. At the same time the Treasury wrote to the Board of Trade expressing grave dissatisfaction with the action of the Committee appointed by the Board to conduct the purchase of Norwegian Fish and Oil and instructing that no further commitments should be entered into unless a loan could be arranged.

Negotiations were started through Messrs. Hambro and were successfully concluded in June for a loan of Kr. 40,000,000 for two years against Bills drawn half by Messrs. Hambro and half by the British Bank of Northern Commerce, covered by British Treasury Bills as collateral. The rate of interest was  $\frac{1}{2}\%$  above the Norwegian Bank Rate, with a minimum of  $5\frac{1}{2}\%$ , plus 1% per annum commission to the Accepting Banks and  $\frac{1}{2}\%$  per annum to Messrs. Hambro and the British Bank of Northern Commerce. At the same time a Loan of Kr. 30,000,000 was arranged in Denmark on similar lines except that Kr. 10,000,000 took the form of a cash advance; the rate of interest charged was  $\frac{1}{2}\%$  above the Danish Bank Rate with a minimum of 5% plus 1% per annum commission

Denmark

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

to the Danish Banks and  $\frac{1}{2}\%$  per annum to Messrs. Hambro and the British Bank of Northern Commerce.

Norway

In July 1916 the Chancellor of the Exchequer asked the opinion of the Committee as to the possibility of financing an expenditure of £8,000,000 required to prevent the catch of Norwegian, Icelandic and Autumn Norwegian Fisheries from going to Germany. Commander Leverton Harris, of the Restriction of Enemy Supplies Department, attended a Meeting of the Committee and explained the proposal further. The Committee viewed the matter with misgiving, but as the policy had the support of the Government it was agreed that Commander Leverton Harris, accompanied by Mr. Hope Simpson of the Bank of Liverpool, should go to Norway to negotiate a further Loan. As a result, a Loan for Kr. 140,000,000 was arranged with the Norges Bank against the deposit of British Government Treasury Bills. The Loan carried compound interest at 1% above the official Bank Rate of the Norges Bank, only  $\frac{1}{2}\%$  above to be charged should the Norges Bank Rate be 6% or over; half of the Loan had a currency of one year and half of two years. Messrs. Hambro received a commission of  $\frac{1}{4}\%$  per annum.

General  
Scandinavian  
position

The position in Scandinavia about this time was further complicated by the large payments which the British Treasury had agreed to provide there on behalf of the Russian Government which amounted to the equivalent of some £300,000 a month.

Purchases of Scandinavian Exchange were



CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

carried out by Messrs. Hambro under instructions received from the Committee. No attempt was made to give direct support to the Exchanges but purchases were effected with extreme caution in order not to disturb the Market and, if possible, to allow a gradual rise.

Sweden

In order to raise money to pay for purchases of Timber in Sweden an overdraft of Kr. 10,000,000 was arranged in July 1916 at 6%, subject to one month's notice. The Committee were opposed to an overdraft subject to such short notice but were compelled to give their assent as the money was required so urgently that there was no opportunity to conclude a more satisfactory Loan.

General  
 Scandinavian  
 position

By the autumn of 1916 the Scandinavian Exchanges reached a more normal figure. A general rise in quotations had taken place since June, despite heavy exchange purchases, the rise doubtless being to a large extent due to the various successful Loan negotiations referred to above. In Norway and in Denmark it had been possible to accumulate a fairly substantial balance on the Treasury Accounts, chiefly through careful purchases of exchange, and it was even possible to start reducing indebtedness in these Countries. In Sweden, however, expenditure still tended to outrun receipts despite the fact that appreciable sums were being obtained through purchases of exchange and through the sale in Sweden of Fish

Sweden

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

originally purchased in Norway. The greater part of the expenditure was on Timber, while iron ore bought for the Ministry of Munitions and payments made on account of the Russian Government also absorbed very large sums. But in the early part of 1917 considerable purchases of exchange became possible in Sweden and the position there improved so rapidly that in February a credit of Kr. 7,500,000 opened in the previous December was repaid, and the exchange purchases were discontinued.

Norway

With the object of securing the continuous engagement of Norwegian vessels in trade with this Country and with the Allies an Agreement was concluded by the Government at the beginning of the year 1917 under which Norwegian shippers were insured against war risks, payments under the Agreement being made in Kroner. Liabilities under this heading were at first expected to reach £750,000 to £1,000,000 a month. Subsequently, however, the Treasury found it possible to raise the premium rates from a figure much below the Commercial rate (circumstances had at first rendered it desirable to concede a very favourable rate) to a level estimated not to show any considerable loss. Ultimately the scheme became not only self supporting but, with the decrease in the submarine menace, showed a large profit balance.

In the spring of 1917 the Shipping Controller began purchasing ships in Norway and very

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

heavy demands for Kroner were made by him. The Exchange which had been weak for some little time developed firmness and large purchases became possible. Kr. 25,000,000 for instance being purchased in March.

Norway

It was, however, decided to approach the Central Bank of Norway with a view to getting a loan of a further Kr. 50,000,000. As a condition of any loan, the Central Bank insisted on the relaxation of the restrictions on the exportation of coal to Norway. The point having been conceded, a contract was effected in May, the amount of the Loan being Kr. 51,500,000 secured by Treasury Bills as collateral. As before, Messrs. C. J. Hambro & Son and the British Bank of Northern Commerce each drew 90 day Bills for half of the total Loan, the Bills being discounted in Norway at  $\frac{1}{2}\%$  above the Norwegian Bank Rate with a minimum of  $5\frac{1}{2}\%$ , plus  $1\%$  per annum commission to the Accepting Banks and  $\frac{1}{2}\%$  per annum to Messrs. Hambro and the British Bank of Northern Commerce. The Bills were renewable up to a maximum of two years. As soon as the arrangements for the Loan were complete, the Treasury suggested to the Committee that purchases of Norwegian Exchange might be discontinued for a time as the balances in Norway appeared to be ample. The Committee were, however, of opinion that the possession of a substantial balance in Norway would be of most material assistance in the negotiations for the renewal of the Kr. 70,000,000 (half of the Loan arranged by Mr. Leverton Harris) falling due on the

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

31st August and the Treasury agreed, therefore, that Exchange purchases should be continued. The matter of the renewal of half the Leverton Harris Loan was taken up in June and the Norges Bank agreed to extend the time of repayment for a year. It was not, however, possible to cease buying Exchange as timber purchases on a large scale both in Norway and Sweden had begun again; also the expenditure under the Norwegian Fish Agreement was expected to be much greater than had originally been estimated owing to an abnormal catch of herrings. Purchases of Swedish Exchange were commenced again in July in order to pay for timber.

Norway                      Early in July the Committee wrote to the Treasury to enquire whether it was proposed to continue buying under the Norwegian Fish Agreement after the season's catch had been purchased. The Committee stated that, in the event of the American Government taking up in earnest the question of rationing Neutral Countries, it seemed a very strong argument in favour of this Country altering their policy of buying from Neutral Countries with the object of preventing supplies going to Enemy Countries, and substituting therefor a similar policy of strict rationing which, it seemed likely, would attain the same end, without committing Great Britain to liabilities abroad prejudicial to her credit and financed only at a heavy cost. In the case of the Fish Agreement the Committee said that they could not contemplate without

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

alarm the question of incurring fresh liabilities of similar magnitude. The Treasury in reply intimated that they were in accord with the views of the Committee and were urging upon the Foreign Office and upon the Restriction of Enemy Supplies Department the necessity for revising their plans on the lines recommended. In consequence, expenditure under this heading fell to comparatively small figures at the end of September.

In the early autumn the Treasury's position in Norway became favourable, owing chiefly to the payments under the Fish Agreement being considerably below the figures anticipated and to heavy receipts on account of coal shipments and freights and for sales of fish and oil. It was possible to stop purchasing Exchange. Indeed, the Treasury offered to place Kr. 15,000,000 at the disposal of the Committee for the support of the Exchange which had fallen to little above 15.00, but the Committee advised the Treasury not to use the funds in this manner as they believed that the cessation of purchases on behalf of the Government would have a pronounced effect without the necessity for active support. Little effect was, however, produced on the Exchange because this discontinuance was of short duration; owing to heavy buying of timber and iron ore, purchases had to be started again in November.

Sweden

Negotiations were being carried on at this

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

Sweden      time by the French for a Loan in Sweden, part of the proceeds of which were to be placed at the disposal of the British Treasury who, on the advice of the Committee, had refrained from attempting to conclude a Loan on their own account upon learning that the French were thus engaged. After prolonged negotiations the French were unsuccessful owing to the onerous terms required. The question of trying to obtain a Loan on account of the British Treasury was then discussed but the idea was abandoned owing to the unlikelihood of securing reasonable terms. Purchases of Swedish Exchange had therefore to be continued though Exchange could only be bought at a rapidly rising price. By November the situation in Sweden once more became satisfactory as timber buying, which had been very heavy during the summer, fell to comparatively small figures; purchases of Exchange were therefore discontinued.

Norway              In October 1917 the Kellner Partington Paper Company arranged to sell their business to Norway; the Norwegians wished to make an arrangement for a sterling Loan to cover the sum involved (about £6/7,000,000) as the remittance of so large a sum through the Exchange could only be made over an extended period. Eventually the Treasury, on the recommendation of the Committee, agreed to advance up to a total of £4,000,000 for a maximum period of two months, the rate of interest charged being the same as that ruling in

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

Norway in connection with the Loan of Kr. 140,000,000 during the period of the advance.

Denmark

In November a further Loan for Kr. 30,000,000 (chiefly to finance purchases by the Ministry of Food) was arranged in Denmark, as to  $\frac{1}{5}$ th by means of a Cash advance and as to  $\frac{4}{5}$ ths by means of Bills at 3 months' sight. The Bills were discontinued at  $\frac{1}{2}\%$  above the Danish Bank Rate with a minimum of 5% and a commission of 1% per annum to the Accepting Banks; the cash advance carried interest and commission at similar rates. The Loan was secured by British Government Treasury Bills and was renewable until the declaration of Peace by Great Britain. At the same time an arrangement was made under which the first Loan of Kr. 30,000,000, for which an Agreement was concluded in January 1916, might be continued until the declaration of Peace by Great Britain.

Norway

At the end of December purchases of Norwegian Exchange were discontinued as the Treasury balance had reached a large figure, chiefly owing to the fact that the requirements in respect of the insurance of Norwegian vessels had fallen largely below the estimates and to the fact that Kr. 14,000,000 Exchange had been purchased in connection with the Kellner Partington deal. The quotations of all three Exchanges, which had shewn pronounced weakness in November, started to rise rapidly during this month, the highest quotations for the month for Norway, Sweden and Denmark being 14.55,

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

14.38 and 15.30 respectively against a lowest quotation in November of 12.05, 10.00 and 12.00.

In January 1918 the Treasury authorised the purchase of Fresh Herrings in Norway on the understanding that the Food Controller would make no purchases unless he had definitely secured from the Shipping Controller tonnage which might be expected to bring the Fish to this Country in good condition. Heavy purchases of sardines were also made in Norway during the early months of the year 1918. Despite these calls upon the Treasury resources, indebtedness was reduced by the repayment of Kr.20,000,000 in January and February. In the spring large sums began to be available from the premiums paid in connection with the insurance of ships (to which reference has been made previously) the scheme having reached the stage of being more than self-supporting, and from that time onwards considerable sums were received under this heading.

Denmark

In March receipts from coal shipments and freights started in Denmark and thence onwards provided a steady income.

Sweden

On the 29th May 1918 an Agreement was signed between the Swedish Government on the one side and the French, <sup>Italian</sup> ~~United States~~ and British Governments on the other side, the financial clauses of which provided for a monthly credit of Kr.6,250,000 to be used exclusively for expenditure in Sweden. The credit was conditional upon Exchange being 17.50 or above. The British

" vide Lon. Ex. Committee  
Scandinavian Exchange  
file No. 3 : p 231  
text of agreement  
(4th Schedule) "



CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

portion was available against Messrs. Hambro's 3 year Promissory Notes, interest being payable half-yearly at the cash credit rate of the Sveriges Riksbank during the preceding half year, subject to a minimum of  $5\frac{1}{2}\%$  and a maximum of  $7\frac{1}{2}\%$ . British Government 6% 3 year Kroner Notes to a face value of 20% in excess of the amount of the Loan outstanding were deposited by the Treasury as collateral. The Loan was repayable in whole or in part either in Kroner or by Sterling cheque on London at the average middle rate of the day for the 30 days preceding the due date of repayment.

The Agreement also provided for half of the payments in respect of iron ore to be made by means of British Treasury 6% one year Sterling Notes (with option to the British Treasury to renew until 1st August 1920) the Notes being not negotiable and unavailable for use as collateral except in Sweden during the whole of their currency unless Exchange reached Kr. 17.50. A similar provision covered the payment for Swedish paper and pulp, but the Swedish exporters had the alternative of placing the money on deposit with a British Bank for a fixed period of one year, subject to an option to the British Treasury to require that the period of deposit be extended for a further year. The Swedish Government also undertook to arrange for the investment or deposit of one half of the moneys due for losses of ships on the same conditions as those in respect of payments for paper and pulp. The conclusion of this Agreement and

CHAPTER IV  
 FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

the large receipts which started to become available in the spring from coal shipments and freights and from the Wheat Commission provided ample funds in Sweden.

Norway                    In July 1918 arrangements were made with the Norges Bank to repay a quarter of the Leverton Harris Loan of Kr. 140,000,000 maturing on the 31st July and to continue the remainder until the 31st July 1919 or until 6 months after the termination of the War, whichever might be the earlier.

Sweden                    In October 1918 the Sveriges Riksbank agreed to take gold from the Bank of England and to pay for it at par value provided that the proceeds were used for purchases in Sweden.    £1,000,000 in gold was accordingly shipped.

In the autumn, after the conclusion of the Armistice, the Scandinavian Exchanges rose rapidly, the Exchanges on Norway, Sweden and Denmark reaching 17.55½, 17.15 and 17.85, respectively, in November.

Norway                    In December the Norges Bank suggested to the Treasury that, in view of the gold shipments to Sweden, consideration should be given to the question of sending a certain amount of gold to Norway. The Committee agreed to the shipment of Kr. 20,000,000 in gold, to be used in reduction of indebtedness, if the Norges Bank would accept the gold at Mint parity and would also give the Treasury the option to renew the balance of the Leverton Harris Loan for a further

CHAPTER IV  
 FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

period of one year from 31st July 1919 on similar terms. Eventually it was agreed with the Norges Bank to send £1,500,000 in gold to be accepted at Mint parity less  $\frac{1}{4}\%$  in repayment of an equivalent amount of Kroner, on the understanding that approximately Kr. 30,000,000 of the Loan would be paid to the Norges Bank in sterling on the 31st July 1919, at the average buying rate in Christiania for telegraphic transfers on London for the month of July, and that the balance of the Loan amounting to approximately Kr. 57,000,000 would be renewed on existing terms for a further year.

In February 1919 the Loan of Kr. 51,500,000 from the Central Bank, Norway, was renewed for a further year on the existing conditions.

In March purchases of Norwegian Exchange were resumed to provide funds to repay outstanding Loans, and reached heavy figures at steadily rising rates. Indeed, after the beginning of May, the purchases were all effected above the par of Exchange. Purchases of Swedish Exchange had been commenced again in February for the same purpose.

In April Kr. 20,000,000 falling due in Norway in July was taken up under discount and a further Kr. 46,000,000 Bills due in July and August were similarly taken up in June.

Purchases of Exchange both on Norway and Sweden were discontinued in June. In fact, so

General  
 Scandinavian  
 position

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

favourable did the position in Scandinavia become that by the end of July the only Loan outstanding in Norway was a sum of Kr. 23,000,000 while the Capital indebtedness in Denmark had been completely repaid, and a sum of Kr. 12,500,000 only was outstanding in Sweden. By the autumn the Loan in Norway was liquidated and the Treasury had a credit balance there of about Kr. 10,000,000 as well as in Denmark to meet Government purchases: while in Sweden there was a credit balance of Kr. 30,000,000, a sum ample to cover all expenditure, for the purchases on Government Account had been reduced, as in the other Scandinavian Countries, to small figures. The situation in Scandinavia at the close of the year was therefore satisfactory; the Exchanges on Norway and Denmark were above par though the rate on Sweden had reacted. At the beginning of January 1920 the quotations were as follows -

<u>Norway</u>	<u>Sweden</u>	<u>Denmark</u>
18.60	17.56½	19.63½

The chief headings of expenditure in Scandinavia (approximate figures) during the period July 1916 to October 1919 inclusive, together with the principal sources from which these purchases were financed apart from the various Loans to which reference has been made, may be summarized as follows -

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SCANDINAVIA

In millions of Kroner

NORWAY

<u>Expenditure</u>		<u>Financed by</u>	
o/a			
Ministry of Munitions	30	Insurance premiums	100
British Purchasing Agency (chiefly fish and oil)	240	Sales of fish	40
Purchase and insurance of ships	300	Coal shipments and freights	230
Timber and iron ore	100	Purchases of Exchange	230
		Wheat Commission	45

SWEDEN

Timber	155	Coal shipments and freights	70
Ministry of Munitions	50	Purchases of Exchange	160
Paper Controller	20	Wheat Commission	50
Russian Government	25	Sales of fish	15

DENMARK

Ministry of Food	60	Coal shipments and freights	95
Transfers to Iceland o/a purchases of fish	35		

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SPANISH EXCHANGE

he Exchange with Spain remained comparatively steady until the year 1916 when a gradual depreciation set in so that by the close of the year the rate had fallen below 23.00. The depreciation was further accentuated during 1917 and the position caused a good deal of concern.

At the beginning of January 1917 the Committee wrote to the Treasury in regard to the surprise which the French Government were understood to have expressed that support had not been given to this Exchange by the British Government, with the result that purchases made in Spain by the French Government had been rendered very costly. The Committee stated that they regarded the observations of the French Government as so much further evidence "as to the "unfortunate effect upon the Exchanges of the sterling "credits granted by H.M. Government. Even in the case "of credits to which the stipulation is attached that "the payments to be effected thereunder must be in "respect of goods purchased in this Country, and that "the payments must moreover be made in this Country, "the Exchanges are in the end of necessity adversely "affected either by the purchase abroad of raw material "or goods by this Country in connection with the "articles supplied to the respective Foreign Governments "or by purchases abroad, either on trade or private "account, effected as an outcome of the disbursements "here by the Governments in question".

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SPAIN

In March the Treasury asked the advice of the Committee regarding a proposed expenditure of £3,000,000 on the purchase of ships from Spain. The Committee suggested that the French Government should be approached with a view to the acquisition in France of Spanish Securities, which were held largely there, such Securities to be used for sale in Spain or as collateral for a Loan. The Committee added that to provide such a sum through the medium of the Exchange was hardly practicable unless the payments could be spread over an extended period and that the situation in America did not permit the shipment to Spain of so large a sum of gold. Ultimately, the proposal to purchase the ships was dropped. The suggested mobilisation of Spanish Securities in France (there were practically no such Securities held in England) was also abandoned, as the volume of Securities which the market in Spain could absorb was found to be negligible.

At the end of April 1917, the Treasury sanctioned the expenditure of over £600,000 upon the purchase of the whole of the Spanish potato crop available for export to the United Kingdom and the cost of transport to this Country. The purchases of Exchange to provide the currency required for this purpose had immediately a most adverse effect upon the quotation.

In June the Committee pointed out to the

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SPAIN

Treasury that the continued fall in the Exchange was largely due to purchases of Exchange on Government account. In reply, the Treasury stated that precautions were being taken to keep purchases in Spain within the narrowest possible limits, and added that "My Lords are strongly of opinion that the time has now come when the Spanish (and Swiss) Exchanges should be the subject of regulation by the London Exchange Committee on the same principles as those which the Committee has applied with considerable success in the case of Holland". The Committee answered that they were only able to exercise control according to the resources at their command; it had not, in their opinion, been advisable to use gold for the support of the Exchange and, failing the use of gold, it was impossible to embark on the matter as no appreciable sum could be obtained by sales of Securities or by means of a Loan.

In August the Treasury again urged that all possible steps be taken to counteract the depreciation of the Exchange and forwarded a proposal by Mr. Davies, the Manager of the Foreign Branch in London of the London County & Westminster Bank, Ltd., (written from the Office recently opened in Madrid) that his Bank should operate for the support of the Exchange, the sum of £200,000 in gold to be sent to Spain to provide funds for the purpose. The Committee, after discussing the matter with Mr. Davies on his return to



CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SPAIN

London, informed the Treasury that they were confirmed in their opinion that to obtain an efficient control of the Exchange would require the expenditure of a sum in gold greatly in excess of £200,000 and that they were not prepared to advise the Government to attempt support.

Just before the close of the year Lord Cunliffe went to Spain as the head of a Financial Mission sent for the purpose of negotiating a Loan. After spending about a month in Madrid the Mission returned without achieving any success, chiefly owing to the fact that the Spanish Government insisted that any financial arrangement could only be entered into as part of a new Commercial Agreement to supersede the Agreement concluded in the previous December. The Mission had no power to deal with the commercial side and, moreover, the British Government were not prepared to vary materially the existing Agreement.

In April 1918 the Committee agreed to advise the Treasury that an attempt should be made to give a measure of support to the Exchange as the calls upon the Gold Reserves of the United Kingdom had become less insistent. The Committee proposed that French Gold Coin should be despatched by the Bank of France, an equivalent amount in gold being set aside in London on behalf of the Bank of France.

It was eventually agreed that France and Great Britain should each furnish a sum of Ptas. 50,000,000

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SPAIN

to be used in support of the Exchange, the share to be provided by this Country being obtained, if possible, by means of a Loan to be raised by the Rio Tinto Company. Pending the conclusion of the Loan, funds were provided by means of gold; the gold was despatched from the Bank of France, Great Britain's share being replaced by gold sent from London to Paris as the French did not wish to increase their gold holdings abroad. The Rio Tinto Company obtained the authority of the Spanish Government to issue 6% Mortgage Debentures for Ptas. 50,000,000 redeemable at 3 months' notice in a maximum of 10 years, and the issue was made in the autumn; the proceeds were lent by the Company to the British Government against the security of Treasury Bills.

The dealings in support of the Exchange were placed in the hands of the Anglo-South American Bank, Ltd., and were attended with considerable success, the Exchange quotation being raised from the lowest figure of 16.10 in April to nearly 24.00 in December.

In February 1919 the Committee decided in consultation with the Treasury that it was unnecessary to continue the support of the Exchange. The quotation remained, however, fairly firm until the closing months of the year, when a rather sharp fall took place, the rate at the beginning of 1920 being 19.66.

The Loan of Ptas. 50,000,000 from the Rio Tinto Company was still outstanding at the close of

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SPAIN

the year 1919 but this was the only indebtedness in Spain; in the latter months of 1920, owing to the firmness of the Exchange, it became possible to buy sufficient pesetas at advantageous rates to provide for repayment and the Loan was accordingly liquidated. These Exchange purchases were carried out through the Bank of England as the Committee was dissolved on the 31st December 1919.

The connection of the Committee with the transactions in Spain became rather indirect after the first half of the year 1918 as the Treasury conducted a large part of the business without reference to the Committee.

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SWITZERLAND.

It was not until December 1916 that the Exchange on Switzerland began to show pronounced weakness. A proposal made at that time by the Swiss Bankverein that Swiss Securities should be borrowed here to be used as collateral for a Loan was negatived by the Committee, who were much averse to the negotiation by the Treasury of Loans covered by the deposit of miscellaneous Securities as collateral: it was felt that such Loans damaged the credit of the British Government.

In April 1917 the Committee supported a suggestion that the import of luxuries from Switzerland should be restricted. At the same time the Committee advised the Treasury against the mobilisation of Securities for use as collateral and expressed the opinion that it was not worth while to attempt to raise money by sales of Securities as the Market was very limited.

In July the Swiss Bankverein informed the Committee that there was a prospect of obtaining a Loan on reasonable terms, secured by British Treasury Bills. After considerable negotiations the matter was abandoned, partly owing to the fact that the amount of the Loan offered was too small to be of material use and partly because there was a prospect of obtaining a Loan direct from the Swiss Government as a condition of allowing that Government to grant a Loan to Germany, the latter

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SWITZERLAND

Loan being stipulated for by the German Government in connection with the export of coal from Germany to Switzerland.

In the same month in which the negotiations for the Loan were started the Treasury urged the Committee to undertake measures for the support of the Exchange; reference will be found to the matter in the section dealing with the Spanish Exchange.

The requirements of the British Treasury were chiefly on account of expenditure by the Ministry of Munitions, this being partly due to the desire to prevent the factories in Switzerland undertaking similar work for the German Government. The money needed in connection with the relief of prisoners of War was a further source of expenditure.

In the autumn of 1917 the Exchange became very weak and Mr. Levick of the Treasury was sent to Switzerland in order to further the negotiations for a Loan which had so far been unsuccessful. Mr. Levick returned early in January 1918 without having achieved success and it was not until the following March that a Loan was concluded. Arrangements were then made for 3 months' Bills for a total of Fcs. 100,000,000 to be drawn and accepted by Barclays Bank, Lloyds Bank, the London City & Midland Bank and the London County & Westminster Bank, the Bills to be renewable up to a total period of three years. The Banks received an indemnity from H.M. Treasury and were paid a commission

CHAPTER IV  
FOREIGN EXCHANGES  
LONDON EXCHANGE COMMITTEE.

SWITZERLAND

of  $\frac{1}{32}\%$  upon the value at Fcs. 25 to the £ of all Bills drawn or accepted by them.

The Exchange did not, however, move upwards until September but, as with the other Neutral Exchanges, the rise then became rapid, the quotation being about 23.00 by the end of the year. During 1919 the Exchange rose further until in October the Committee began to purchase Swiss francs in order to repay the Bills outstanding under the Agreement of March 1918. Besides purchases in London, francs were also bought in Amsterdam and in New York. At the close of the year the amount of the Bills had been reduced to Fcs. 36,000,000 though in the process Exchange had fallen to about 21.10, from a quotation of 23.56 when the Committee first started to purchase in the Market.

After the year 1919, purchases were carried out through the Bank of England as the London Exchange Committee had ceased to exist. The last instalment of the Loan was paid off on the 20th March 1920.

---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

---

In July 1915 the Bank of England were requested by H. M. Treasury to undertake the purchase of American Dollar Securities for transmission to America with a view to the regulation of the American rate of exchange, which had been moving against this Country since the close of the previous year.

The necessary operations were carried out by the Chief Cashier's Office until the formation of the American Dollar Securities Committee at the end of the year, by which time securities to the nominal amount of \$233,000,000 had been purchased. The clerical work entailed was very considerable, involving the detailed examination of all parcels of bonds and the endorsement of share certificates, the preparation of lists of the individual numbers of the bonds and share certificates in each parcel, the necessary cash payments therefor, and finally the packing and despatch of the cases of securities to Messrs. J. P. Morgan & Company in New York, with a separate advice of the contents of each case.

The Treasury were advised when a sufficient quantity of securities was ready for despatch, and arrangements were made for conveyance to New York by cruiser or liner as opportunity served, the utmost secrecy at all times being maintained.

The formation of the American Dollar

---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

---

Securities Committee and the consequent wider advertisement of the Treasury's desire to obtain securities for use in connection with the scheme for the improvement and maintenance of the American Exchange had the effect of increasing the clerical work of the Bank in this connection to such an extent that it became necessary to form a separate Office to deal with it. At the beginning of 1916 this Office was located in a small portion of the National Debt Office, but the accommodation was soon found to be quite inadequate. More commodious premises had therefore to be sought, and by the middle of January the Office had been transferred to Nos. 3 & 4, Lothbury.

The work performed by the Bank under the Committee was the same as that previously undertaken except that, instead of the securities being received from the Bank's Brokers, they were handed in by the public after contracts for sale to the Government had been approved by the Committee.

Immediately upon the establishment of the Office in the new premises, securities were presented in such volume that it became a matter of great difficulty to obtain an adequate staff familiar with security work. It was therefore decided to approach several Banks with a view to borrowing trained Clerks, and in this manner some dozen men were obtained.

The Strong Room accommodation at the new



---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

---

premises being unsuitable it was necessary to convey all securities, &c., daily to and from the Bullion Office, morning and midnight processions of trucks through Lothbury occurring for a great many months.

On the 16th March 1916 it was decided that the deposit of securities on loan should commence and this new work required the preparation of provisional receipts which were signed by authorised officials of the Bank.

In May 1916 the totals of securities lodged were still below the amounts required, and as a falling off in the deliveries was being experienced a resolution of the House of Commons provided for an additional income tax of 2/- in the £ on securities, to be specified, which were not placed at the disposal of the Treasury either by sale or deposit on loan.

The effect of the penal tax was immediately to increase largely the sales and deposits. The Office in Lothbury became unable to accommodate the staff required to deal with the work and accordingly, early in June, the Court Room of the Bank was placed at their disposal. Here a small staff was employed during the day in receiving the securities after examination and in preparing the work for listing and reading over by the evening staff, which during June and July was of an average strength of 90 to 100 clerks, with 20 typists. For some months securities to the value of about £8,000,000 a week were

---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR

SUPPORT OF AMERICAN EXCHANGE.

---

shipped to America.

The shipments as far as possible were made twice weekly and from the spring of 1916 onwards each was accompanied by a member of the staff of the Bank of England. On numerous occasions sailings were cancelled at the last minute, and it was often necessary to unpack such cases as contained share certificates in respect of which interest was shortly falling due, if the delay in shipment would preclude Messrs. J. P. Morgan & Company from lodging them with the Companies prior to the closing of the books for preparation of the dividends. The certificates had then to be presented for "marking" in the usual manner.

The securities were originally packed in large white wooden boxes, but the American public became so familiar with these that the very appearance of a fresh consignment was said to cause a slump in prices on the New York Stock Exchange and consequently a decrease in the value of the securities. It was decided, therefore, to adopt a disguise, and for a short time large barrels were used. This form of packing, however, was found to require too much time as the securities had to be rolled in cylindrical form, the unoccupied spaces in the barrels being filled with sawdust and the barrels then coopered. A Notary was always present throughout the whole process of packing which included a final reading of all the parcels of securities against either

---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

---

the contract notes or deposit forms.

At one time the boxes were weighted with lead so that, in the event of the vessel conveying them being sunk, they would not float and possibly fall into enemy hands. As, however, the boxes were only about one quarter the size of those previously used and were far too heavy, this arrangement had to be abandoned.

Eventually the original form of case was again employed, an attempt at disguise being made by staining with different colours. It is, however, doubtful if any of these expedients served the intended purpose, for several of the persons who accompanied the consignments have stated that their arrival in New York and the nature of their errand seemed well known to representatives of the American Press.

Towards the end of July 1916 additional premises at 1, Bank Buildings were secured to which the work carried on in the Court Room was transferred.

In August the deposit of securities under Scheme "A", which provided for their acceptance on loan for a period of two years from the date of deposit, came to an end, and a new Scheme, known as Scheme "B" was introduced, by which securities were loaned to the Treasury for the term of five years from the 31st March 1917.

Under the new Scheme, all coupons payable in London up to and including those due for payment in

---

CHAPTER IV. FOREIGN EXCHANGES

ACQUISITION OF SECURITIES FOR

SUPPORT OF AMERICAN EXCHANGE.

---

August 1918 were detached from the bearer securities deposited on loan and were handed to the coupon department of the Office for tabulation and collection as they fell due. Coupons falling due after the above date except those payable in America were detached by Messrs. J.P. Morgan & Company and forwarded to the Bank as they approached maturity.

Late in 1916 the number of contracts approved by the Committee but under which securities had still to be deposited at the Bank was so great that, in view of the necessity for the earliest possible despatch to America, it was decided to approach those Bankers who were ready to lodge securities in large quantities, requesting them to assist by allowing their own staffs to prepare the bearer bonds for shipment. This was agreed to by nine of the Banks and the work was performed in the evenings under the supervision of members of the staff of the Bank of England.

The volume of securities deposited direct with the Bank was however still so enormous that additional staff during the day became imperative. Accordingly about 30 men accustomed to security work were borrowed from the Country Branches of the Bank, and were retained until Scheme "B" was discontinued on the 31st March 1918. At the same time a number of selected members of the staffs of various Trust Companies were added to the evening staff.

---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

---

A difficult feature of the work was the various questions that arose from the formalities to be observed in America in connection with unendorsed share certificates and registered bonds standing in the names of deceased persons, and a large amount of correspondence was engendered by the necessity of procuring the requisite documents to enable the several American Companies to transfer these securities into the names of the Treasury's Nominees.

During the greater part of 1918 and 1919 the work of the Office consisted in receiving and forwarding to America those securities for which contracts had been made in good time but delivery of which had been delayed for various reasons, together with the collection of coupons payable in London. Until the termination of hostilities the amounts due in respect of coupons were paid in many instances by the London Agents without production of the coupons themselves, owing to the risk of their transmission; in these cases the coupons were retained by Messrs. J.P. Morgan & Company until such time as it was considered safe to undertake shipment, and payment was made under indemnity from the Treasury against lists prepared by the Bank of England.

The consolidation of the bonds of many individual owners in the hands of the Treasury was no doubt welcomed by the various paying Agents concerned,

---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

---

inasmuch as the coupons were during the period of the Scheme presented to them from one source.

The work, with the exception of that connected with the encashment of coupons, having for the time being reached much smaller proportions the premises at 3 & 4, Lothbury were evacuated towards the middle of 1918 and the staff transferred to an office on the ground floor of the National Debt Office. Later, Strong Room accommodation was provided on the premises, thus obviating the necessity for running trucks of securities to and from the Bullion Office. The staff, now only a small one, was occupied in clearing up questions arising from previous transactions, whilst the work of the Coupon Department was carried on in the Auction Mart building mainly by Women Clerks, being later transferred to a room in the Loans Office in Lombard Street.

In 1919 it was decided to commence the return of securities as they became available and in April of that year various descriptions of registered stocks were dealt with. The clerical work in this connection was undertaken by the Companies concerned, the American Securities Office merely being called upon to lodge the necessary certificates accompanied by a comprehensive transfer for the total amount of stock together with the Treasury's indemnity to enable each Company to retransfer to the original owners or their successors in title.

---

CHAPTER IV. FOREIGN EXCHANGES

---

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

---

The month of October 1919 saw the commencement of the return of about £5,000,000 Bearer Bonds of Scandinavian and Dutch Issues. These bonds had not been forwarded to America but had remained in the custody of the Bank of England. The work devolving upon the Office in connection with the return of these securities consisted of the delivery of the bonds against surrender of the relative Treasury Certificates of Deposit, and as in every case the Treasury had undertaken, as far as possible, to return the identical bonds deposited it was necessary to connect with each certificate the individual bonds claimed thereby. This process was carried on in all subsequent release operations and necessitated the employment of a considerable staff.

Early in 1920 arrangements were made with Messrs. J. P. Morgan & Company for the return of securities as and when they could be freed from use as collateral, and thenceforward frequent shipments of securities were made, the boxes being unaccompanied but in the charge of the Master of the vessel. On each occasion the Bank provided two Clerks to take over the cases at the port of arrival and bring them to London.

In February 1920 a portion of the British Railway Debenture Stocks was returned, the remainder being returned in 1921. The clerical work in this connection was not undertaken by the Railway Companies,

CHAPTER IV. FOREIGN EXCHANGES

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

there being only some 700 transfers involved.

Details of the total amounts of sterling and dollar securities purchased by and lent to H.M. Treasury are to be found in the Report of the American Dollar Securities Committee, published on the 4th June 1919 as well as full particulars of Scheme "A" and Scheme "B".

Many of the loaned securities were subsequently either sold to the Treasury or released in America under an arrangement whereby owners were allowed, through their American Agents, to obtain delivery of their holdings on payment, to the Treasury account in New York, of their value at the current New York market price, the British owner being paid the equivalent in sterling at the rate of exchange ruling on the date of the transaction\*.

The return of securities proceeded satisfactorily but on the 1st July 1921 there still remained to be sent back £35,570,510 Sterling Bonds, £39,897,180 Sterling Registered Stocks, \$32,658,200 Dollar Bonds and \$51,339,640 Dollar Shares.

Of these £61,635,919 sterling securities and \$67,113,400 dollar securities were on the 13th August 1921 still lodged as collateral with the United States

\*The total nominal value of the securities returned from America to depositors was as follows:-

Sterling Bonds	£80,200,230 =====
Dollar Bonds	\$74,242,000
Dollar Shares	199,324,758
	<u>\$273,566,758</u> =====



## CHAPTER IV. FOREIGN EXCHANGES

ACQUISITION OF SECURITIES FOR  
SUPPORT OF AMERICAN EXCHANGE.

Treasury and could only be released if other securities equally satisfactory to the American Government were substituted.

In connection with this and other matters the Governor of the Bank undertook a journey to New York and Washington and discussed with Officials of the United States Treasury the nature of the securities to be substituted.

As the outcome of these interviews, it was arranged that the following obligations of Colonial Governments should be deposited with the United States Treasury in time to obtain the release of the securities required for redelivery to the depositors under Scheme

"B":

	£	s	d	\$
Canada $3\frac{1}{2}\%$ Debs. 1925/8				2,000,000
" $4\frac{1}{2}\%$ " 1925/45				64,850,351.17
New Zealand $3\frac{1}{2}\%$ Debs. 1925/8	1,000,000:	-:	-	
" $5\frac{3}{8}\%$ " 1928	9,900,000:	-:	-	
" $4\frac{1}{2}\%$ " 1925/45	5,616,098:	19:	9	
" $5\%$ " 1929/47	8,600,000:	-:	-	
South Africa $5\%$ " 1929/47	1,500,000:	-:	-	
" $3\frac{1}{2}\%$ " 1925/8	2,000,000:	-:	-	
" $4\frac{1}{2}\%$ " 1925/45	6,384,000:	-:	-	
Australia $4\frac{1}{2}\%$ Debs. 1925/45	11,500,000:	-:	-	

\*The American Securities Office was closed on the 30th June 1922 and such of the securities as had not been claimed by that date were taken over by the National Debt Office, the Bank of England staff being released from any further work in this connection. It is satisfactory to be able to record that no case of a loss of Security occurred during the whole period.

## CHAPTER IV. FOREIGN EXCHANGES

## PUBLIC LOANS RAISED IN THE UNITED STATES OF AMERICA

(Excluding Treasury Bills)

The Bank of England's connection with these Loans was not a very direct one, but they were called upon to give certain guarantees, to pay some of the coupons, to ship gold in part repayment of the first Loan, and to assist in the conversion of certain Notes into National War Bonds. For these and other reasons it is convenient that a brief record should be made. The Loans (excluding the 20 year Bonds issued in replacement of No.4 below) were as follows:-

Nature of Loan	Amount	Date of Issue	Rate of Interest	Inter-est Dates	Issue Price	Date of Maturity
1 British portion of Anglo-French Loan (no collateral)	\$ 250,000,000	1915 Oct. 15th	5	15 Apl. 15 Oct.	98	1920 Oct. 15
2 Two year Coll. Notes	250,000,000	1916 Sept. 1	5	1 Mar. 1 Sept.	99	1918 Sept. 1
3 Three year " Notes	150,000,000	1916 Nov. 1	5½	1 May 1 Nov.	99½	1919 Nov. 1
Five year " Notes	150,000,000	1916 Nov. 1	5½	1 May 1 Nov.	98½	1921 Nov. 1
4 One year " Notes	100,000,000	1917 Feb. 1	5½	1 Feb. 1 Aug.	99.52	1918 Feb. 1
Two year " Notes	150,000,000	1917 Feb. 1	5½	1 Feb. 1 Aug.	99.07	1919 Feb. 1
5 Three year Conv. Gold Notes	101,620,900	1919 Nov. 1	5½	1 Feb. 1 Aug.	98	1922 Nov. 1
Ten year Conv. Gold Bonds	148,379,100	1919 Nov. 1	5½	1 Feb. 1 Aug.	96½	1929 Aug. 1
	\$1,300,000,000				All plus Interest.	

All these Loans were free of British taxes to persons domiciled abroad.

CHAPTER IV. FOREIGN EXCHANGESPUBLIC LOANS RAISED IN THE UNITED STATES OF AMERICA(Excluding Treasury Bills)

1. A Special Mission was sent to the United States to negotiate this Loan, the British Representatives being Lord Reading, Sir Edward Holden, Sir H. Babington Smith and Mr. (later Sir Basil) Blackett. The cost of the Loan to the British and French Governments was as much as £5:18:10 per cent. per annum, and the terms were considered onerous. On the other hand, no collateral security was required on this occasion. The Loan was convertible at par up to 15th April, 1920, into 4½% Bonds, maturing not earlier than the 15th October, 1930, or later than the 15th October, 1940, but no conversions took place. The Bank were asked to give an estimate for supplying the original Bonds and did so, but at the same time strongly advised that they should be prepared in America; the latter course was adopted.

Repayment of the Loan was duly effected on the 15th October, 1920, but the French share was provided for to the extent of \$100,000,000 by fresh borrowing in New York. Considerable amounts had been bought, principally by Great Britain, prior to redemption, and \$178,000,000 of the Bonds so purchased was acquired for the Currency Note Account. Gold to the amount of £30 millions was shipped by the Bank of England, beginning in March, 1920, of which £22,200,000 was gold held by them in accordance with "arrangements made between the British and Italian

CHAPTER IV. FOREIGN EXCHANGESPUBLIC LOANS RAISED IN THE UNITED STATES OF AMERICA  
(Excluding Treasury Bills)

"Governments on the 8th July and 19th November, 1915."  
(vide also "Allies' Borrowings" Nice Agreement of 5th June which was ratified on 8th July, 1915). The Bank were under an obligation to return this gold on demand, but the Chancellor, in a letter dated the 16th March, 1920, undertook this responsibility. The remaining £7,800,000 gold was taken from the Bank's Reserve.\*

2. By the Autumn of 1916 the Government had collected a considerable amount of American and other securities, all borrowings between the Anglo-French Loan of 1915 and the entry of America into the war in April, 1917, having to be secured by the deposit of collateral. On the occasion of this Loan securities for \$300,000,000 "approved by J.P.Morgan & Co." were pledged with the Farmers Loan Trust Co., one-third being United States securities, one-third securities of the Canadian Government or Canadian Pacific Railway and one-third securities of certain foreign governments. If the collateral depreciated, more was to be deposited, so as to keep up the margin to 20 per cent. The Loan was underwritten at 1%.

Before the issue of the Loan the Bank entered into an agreement with J.P.Morgan & Co. to take a half interest with them in "applying for and/or purchasing, "with a view to upholding the market, any amount up to "\$100,000,000". This operation was to be for account

---

\*The Bank thereupon tried without success to get the Chancellor to agree to a rise of 1% in the Bank Rate.

CHAPTER IV. FOREIGN EXCHANGESPUBLIC LOANS RAISED IN THE UNITED STATES OF AMERICA(Excluding Treasury Bills)

of the British Government. The Notes could be redeemed at 101 per cent. up to one year prior to maturity and thereafter at 100½.

3. These Notes were payable at the offices of J.P. Morgan & Co. in New York, or in London in sterling at the fixed rate of \$4.86½ to the £. They were redeemable at the Government's option at a premium of one per cent. for each year or part thereof of unexpired currency. They were secured by a pledge with the Guaranty Trust Company of New York of securities approved by J.P. Morgan & Company to the value of not less than \$360,000,000, half of which had to be American, Canadian or Newfoundland securities. The margin was again 20%.

The Bank once more gave an undertaking to "underwrite and subscribe" in such a manner as J.P. Morgan & Company might "deem most effective, up to \$60,000,000", Morgans to do the same. But the Bank were not called upon to fulfil this or their former guarantees, and on the 6th January, 1917, they obtained an assurance that their obligations might be considered cancelled. The Notes were underwritten at 1½%.

The payment of the coupons in sterling at \$4.86½ was a condition which was not expected to be operative while the American Exchange was pegged about 10 cents lower, but in May, 1917, a few coupons were nevertheless remitted. The Treasury then asked the Bank to undertake

CHAPTER IV. FOREIGN EXCHANGES

PUBLIC LOANS RAISED IN THE UNITED STATES OF AMERICA

(Excluding Treasury Bills)

encashment of any such coupons and ultimately of any of the Notes themselves which might be presented. At the same time the Bank was requested to perform a similar service in respect of the one and two year Notes, dated 1st February, 1917, (vide No.4). The Bank agreed, upon receiving an assurance that if the work involved should become heavy the Government would consider a claim to some remuneration. (For the position as regards borrowing in America in the Autumn of 1916, see Chapter XII Anglo-French Committee, October, 1916.)

4. These Notes were convertible at any time before maturity into twenty year  $5\frac{1}{2}\%$  Bonds payable 1st February, 1937, and not subject to prior redemption.\* Principal and interest were payable in London at the fixed rate of  $\$4.86\frac{1}{2}$  to the £. They were redeemable at a premium of 1% or 2% respectively at the Government's option, and as usual were secured by a pledge (this time with the Bankers' Trust Company, New York) of securities, valued at  $\$300,000,000$ , of a nature similar to those hypothecated for the earlier loans. Before the issue, J.P.Morgan & Company cabled that the situation was "so uncertain" that they were doubtful of proceeding unless an agreement could once more be made whereby the two Institutions should undertake to

---

\*These Bonds were dated 1st February, 1917, and due 1st February, 1937, and the amount outstanding at end of the financial years 1919/21 was  $\$143,587,000$ .

## CHAPTER IV. FOREIGN EXCHANGES

## PUBLIC LOANS RAISED IN THE UNITED STATES OF AMERICA

(Excluding Treasury Bills)

underwrite jointly \$150,000,000 if necessary, and "also  
"to purchase in equal shares a total of \$150,000,000 if  
"necessary." The Treasury asked the Bank to give the  
undertaking, and on the 10th January the Bank consented.  
Two or three weeks later, the Bank were released from  
their guarantee.

5. The whole of these Notes were convertible at  
par into National War Bonds of the Fourth Series at the  
fixed rate of \$4.30 (approximate), and when the American  
Exchange improved to about this figure conversion began to  
take place. By the 31st August, 1921, £9,843,678:10:5  
National War Bonds, Fourth Series, had been created under  
this arrangement, by the conversion of \$42,320,200 Notes  
and Bonds (on the basis of \$1,000 to £232:12: -).

There was no hypothecation of Securities on  
this occasion, America, on entering the War on 5th April,  
1917, having waived this stipulation and in addition  
having placed credit freely at the Allies' disposal.

The proceeds of this Loan were partly applied  
to take up the 5½% Notes due 1st November, 1919, (vide  
No. 3).

In May 1920 the British Government began to  
make serious plans for funding their demand obligations  
in America (which then stood at over \$4,200 millions) and

## CHAPTER IV. FOREIGN EXCHANGES

PUBLIC LOANS RAISED IN THE UNITED STATES OF AMERICA  
(Excluding Treasury Bills)

the Bank were consulted on many points connected with the form of the Bonds, the regulations for registration &c.

Further particulars on this point and on the foregoing paragraphs may be found in C.C.P.82 and 82<sup>a</sup>.

In addition to these short-term borrowings the Treasury issued Dollar Bills in New York. The first public issue of these appears to have been on 24th August, 1917, when Three Month Bills for \$150,000,000 were offered at a discount of 5½%. (Vide Committee of Treasury minutes 29.8.17 and "British Finance" p.157.)



CHAPTER IV. FOREIGN EXCHANGES2. BY THE ALLIES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

Shortly after the outbreak of War it became necessary for most of the Allied Governments to raise money in England and to this end Agreements were drawn up to cover the issue of Treasury Bills or Bonds by the Governments concerned. Details of these Agreements will be found under the headings of the various Governments (Chiefly in C.C.O. correspondence file 493/50). In addition to the Governments specified, Treasury Bills of the Armenian Government for £829,634: 9: 3, due 22nd July 1921, were received in payment for War Material purchased from the War Office, although the Bank possess no copy of any Agreement covering the transaction. The United States of America, as the chief creditor nation, had of course no need to borrow. No arrangements were made through the Bank of England for the supply of funds to the Serbian Government against Securities but the British Government did, in fact, advance to them certain amounts in the early days of the War without security; also, some small advances in francs were made through the Bank of England to the Government of Montenegro from March 1916 to January 1918, but without the deposit of security. The first bills discounted were Russian Government Treasury Bills in November 1914. From this time onwards large sums were supplied to Allied Governments by this method.

The money was advanced by the Bank of England on behalf of H.M. Government until August 1915 when, as a

---

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.

result of the issue of the 4½% War Loan 1925/45, the Government found themselves able to begin repaying the Bank. A summary was accordingly made as on the evening of the 18th August 1915 in respect of all money advanced by the Bank of England since the outbreak of War in connection with Government schemes for the maintenance of credit and for advances to Allied Powers. Under the latter heading the total then outstanding was £69,675,384 and it was arranged that the Treasury should repay this sum (together with other amounts advanced on account of Government schemes) at the rate of £10,000,000 in each week. Interest on this total debt, known under the title of the "Agreed Debt"; ceased on the 18th August, but it was settled that the Bank should continue to make advances to Allied Governments under the Agreements until such time as the Treasury were in a position to make the advances themselves. The Bank of England received letters from the Treasury stating that the Lords Commissioners would, in due course, ask Parliament to provide for charging against Public Funds any loss which might be incurred by the Bank through the discounting of bills under the different Agreements and, in consideration of this guarantee, any discount received by the Bank up to the 18th August in excess of 1% below Bank Rate varying was paid to the Exchequer and after that date the discount in excess of ½% below Bank Rate varying.

The "Agreed Debt", as on the 18th August, was

---

\*Vide also under Chapter II.

CHAPTER IV. FOREIGN EXCHANGES

ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

extinguished by the middle of October. The Treasury were not then able to repay the sums advanced by the Bank since the 18th August, but in March 1916, owing to the heavy ingathering of taxes and to large sales of Treasury Bills and 5% Exchequer Bonds 1920, the Treasury began to take over the bills amounting at the time to about £75,000,000. By the 8th April the whole of the bills had been purchased from the Bank with the exception of a small total of Russian Treasury Bills, the balance of that part of the public issue made in February 1916 which was taken up by the Bank of England under the guarantee of H. M. Government; these bills the Bank were selling on the Market as opportunity offered. From this time the funds required on account of bills discounted on behalf of Allied Governments were advanced by the Treasury (with the exception of the money to discount the £72,000,000 French Treasury Bills under the Agreement made between the Bank of France and the Bank of England: vide French Exchange Agreement below).

The transactions consequent upon the issue and renewal of the securities (which were held at the Bank of England) were conducted by the Bank and the correspondence and other work involved soon became considerable. In the following cases the securities were also printed at the Bank:-

French Treasury Bills (Public Issues)  
 Greek " "  
 Roumanian " "  
 Belgian Congo Bonds.

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.

The usual procedure upon the renewal of bills (or bonds) was for the Representative in London of the Government concerned to intimate to the Treasury his Government's desire that this should be done. The Treasury would instruct the Bank to accept bills from the Foreign Representative to cover those maturing and the discount and to deliver the matured bills in exchange. The discount was, in practically every case, satisfied by means of the issue of further bills; thus the amount of bills outstanding was always increasing although the bills actually issued under any particular Agreement remained stationary when once the limit imposed by that Agreement had been reached.

The Agreements were often very loosely worded and in consequence their interpretation had on occasions to be specially settled. In particular, the words "the conclusion of peace" and similar equivocal phrases caused misunderstanding. Thus under Article 4 of the Greek Financial Agreement of the 10th February 1918, the loan was repayable "à la fin de la quinzième année qui suivra la cessation des hostilités" and this phrase was taken to mean the date on which hostilities ceased under the Armistice. As, however, there were several Armistices, the last Armistice, viz., that with Germany of November 11th 1918, was assumed to be the date indicated. In the case of Portugal the termination of the Financial Agreement was twelve months after the conclusion of

---

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.

Peace and this was interpreted to mean the first anniversary of the day, viz., 10th January 1919 upon which the Treaty of Peace with Germany was signed, as it was with Germany that Portugal was primarily at war. In the French, Italian and Roumanian\* Agreements the "conclusion of Peace" was taken to indicate the coming into force of the last Treaty of Peace, namely, that with Turkey. The official termination of the War was fixed as midnight on the 31st August - 1st September 1921 by Order in Council of the 10th August 1921.

---

\*But see correspondence with National Bank of Roumania in the chapter on "Central Banking and Central Banks" and settlement on basis of 10th January 1919 in connection with the "Grain Purchases Account".

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## BELGIAN CONGO.

Agreement  
of  
July 1916

In July 1916 an Agreement was made between the Chancellor of the Exchequer and the Belgian Colonial Minister for a loan of £3,500,000 to the Belgian Congo. The full terms of the advances and the arrangements made for renewal were embodied in a Memorandum which was enclosed in Treasury Letter (No.18585) of the 31st July 1916 to the Bank of England. The terms under which the Securities were to be issued were exceedingly complicated, a fact which is the more surprising when the comparatively small amount of the credit is considered. Indeed, it was soon found that the Agreement, as drafted, was quite unworkable and it was therefore arranged that on the occasion of each advance the Treasury would agree with the Belgian Colonial Minister upon the nature, rate and currency of the security to be deposited. The advances were made against bills or bonds according as the money was deemed to be supplied out of the proceeds of British Treasury Bills or out of other Securities. The advances were made by monthly instalments over a period of two years and five months from August 1916, at the rate of £150,000 a month for the first twelve months and £100,000 a month for the remainder of the period. £2,700,000 was eventually issued in the form of bills, £800,000 in the form of bonds. The bills issued were subsequently converted into bonds. On the 31st August 1921 a total of £3,550,300 bonds was outstanding, the excess being created by the replacement of bills by bonds.

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## BELGIUM.

Although, from the confidential document signed by M. Ribot, Mr. Lloyd George and M. Bark embodying the decisions of the Paris Conference in February 1915, it appears that large sums had from time to time been advanced to the Belgian Government by the British Government, no Agreement was drawn up for the provision of a credit by the issue of Belgian Treasury Bills until January 1919 when a Memorandum of Agreement was forwarded to the Bank of England in Treasury Letter No. 842 of the 7th January. The Memorandum stated that the British Treasury had agreed to open a temporary credit for the Belgian Government to facilitate the measures adopted by that Government for the restoration of Belgium pending the receipt of compensation from the Enemy Powers.

The advances were to be made by the discounting of £9,000,000 Belgian Treasury Bills of three months' currency at the rate of 5% per annum and the proceeds administered by the Belgian Exchange Committee on behalf of the Belgian Government, subject to the general approval of the British Treasury upon principles laid down in the Agreement.

The bills were renewable until the receipt of Reparations enabled them to be discharged. The first

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

receipts accruing to the Belgian Government in respect of compensation or indemnity were to be applied to the liquidation of the bills *pari passu* with that of any similar advances received from any other of the Associated Governments subject to such general principles as the Peace Conference might lay down as to the disposal of the assets made available by the Enemy Powers.

Belgium

The total bills outstanding on the 31st August 1921 was £9,000,000.



CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## FRANCE.

Treasury Bills.

On 30th April 1915 an Agreement was  
concluded at Boulogne whereby the British  
Government, in order to meet the requirements  
of the French Government during the six months following  
undertook to lend £42,000,000 sterling by instalments pro-  
vided gold to the value of £20,000,000 were sent to London  
and sold to the Bank of England proportionately with each  
instalment lent. The gold was received in three consign-  
ments between 10th May and 23rd December 1915.

The French thus obtained £62,000,000 of which  
£50,000,000 was required for payments in the United States  
and Canada and the balance to meet the excess of French  
payments in the United Kingdom over British payments in  
France; the dollar sums were almost entirely supplied by  
the Treasury against payments in sterling from the French  
Government.

The loans were made upon the security of French  
Treasury Bills of twelve months' currency which were  
discounted at the advertised British Treasury Bill rate  
for bills of a similar currency on the day of discount,  
or (as subsequently altered) at Bank Rate, if Treasury  
Bills were not being issued. The bills were renewable  
until twelve months after the conclusion of Peace; under

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

an Agreement made in Boulogne on the 22nd August 1915,  
the final maturity date was extended to not later than  
two years after the conclusion of Peace.

France

The total of the bills outstanding on the 31st  
August 1921 was £30,200,000.

Agreement of  
8th February  
1916

Only £30,800,000 bills of the £42,000,000  
authorised had been discounted by December  
and on the 8th February 1916 a fresh Agree-  
ment was signed in London which provided for the discount  
of the balance under the old Agreement and in addition  
£4,000,000 bills a month from July to December 1916 to  
meet purchases within the United Kingdom. In order to  
satisfy requirements in North America for the three months  
April to July 1916, the British Government undertook to  
discount further French Treasury Bills at a rate not ex-  
ceeding £6,000,000 a month. The details governing the  
issue of the bills were similar to those of the previous  
Agreement.

Gold to the value of £12,000,000 was to be sold  
to the Bank of England, pari passu with the discount of  
these latter bills, in the proportion of £2 in gold for  
each £3 in bills and a further £3,000,000 gold was to be  
sold in place of the gold not exceeding £6,000,000 which,  
under an Agreement made in Paris in February 1915, it had  
been arranged that the Bank of France should advance to the  
Bank of England in certain eventualities.

The £15,000,000 gold was received from the Bank

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

of France between the 25th February and 3rd May 1916 in  
six instalments.

France

The total of the bills outstanding on the 31st August 1921 was £21,300,000.

Under this Agreement the Chancellor of the Exchequer undertook to arrange facilities, so long as the French Exchange remained above 25.50, for the sale on the London Stock Exchange of Securities in French ownership provided that such Securities were placed on the Market by the Bank of France through the Bank of England and that the former Bank guaranteed the Securities to have been in French ownership since the outbreak of War. For an Account of this arrangement see the section on "Central Banking and Central Banks".

The Agreement made by the Bank of England Agreement of 25th April 1916 with the Bank of France was dated 25th April 1916. Under it the Bank of France made a fixed deposit of £20,000,000 in gold with the Bank of England and a credit of £60,000,000 was created by discounting French Treasury Bills for the sole purpose of rehabilitating the Exchange between the two countries; the amount of the fixed deposit of gold was increased later to £24,000,000 and the credit to £72,000,000.

The next Agreement was the Calais Agreement Agreement of 24th August 1916 of 24th August 1916, between the two Governments, authorising the issue of £150,000,000 bills at a rate not exceeding such an amount as would produce £25,000,000 in cash monthly during the period 15th

---

CHAPTER IV. FOREIGN EXCHANGES

---

ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

September 1916 to 15th March 1917; this arrangement superseded as from the 15th September that part of the Agreement of 8th February 1916 under which £4,000,000 bills were to be discounted each month to December 1916 to meet purchases in the United Kingdom.

France

The period covered by the Agreement was subsequently extended for a month and the credit increased by £15,786,482:12: 1.

The bills were of twelve months' currency and were at first discounted at the rate for British Treasury Bills of the same currency on the day of discount and subsequently at Bank Rate. Three years after the conclusion of Peace was fixed as the final date for repayment.

The total of bills outstanding on the 31st August 1921 was £165,750,000.

The French Government undertook to request the Bank of France to place at the disposal of the British Treasury £50,000,000 in gold, this sum to constitute a loan to be repaid by the British Government on the same dates as the repayment of the bills discounted; an amount of £3,319,000 in gold had to be deposited against the additional credit of £15,786,482:12: 1. The Chancellor of the Exchequer arranged that any saving of interest to the British Treasury due to their expenditure of the gold was to be utilised in the discharge of French

CHAPTER IV. FOREIGN EXCHANGES

---

ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

Treasury Bills.\* This provision brought forth a vigorous remonstrance from the then Governor of the Bank, Lord Cunliffe, who protested against a "scheme exposing our "Banking system to a serious risk" and against "the "Treasury's new departure in conducting a banking business "itself and obtaining loans of specie from foreign banks".

France

The exact meaning of the clauses in the Agreement relating to the gold caused some discussion; the conclusion arrived at was that the gold lent should only bear interest from the date when it was used and that, upon repayment of the bills in legal tender money of the United Kingdom, the British Government should undertake to return to the French £53,319,000 in gold.

On the 29th May 1917 a further Agreement  
 Agreement of 29th May 1917 was signed covering the discount of twelve months' Treasury Bills to the extent of £14,000,000 in June and the increase of this amount if it should prove insufficient. The total of the credit was also subject to reduction under certain conditions (vide Articles 2 & 6). The bills were discounted at Bank Rate and were repayable not later than three years after the conclusion of Peace.

On the 31st August 1921 £9,000,000 of these bills remained outstanding.

---

\*The gold was, directly or by exchange, utilised in America and interest (on all but such amounts as were not recovered from the "Laurentic") was credited to France and allowed as a set off against her debt to Great Britain. By an Agreement of 13th December 1919 between the British Treasury and the French financial delegate in London, the French Government undertook not to demand the redemption of the gold until the French debt was completely liquidated.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

Agreement of  
28th June  
1917

The Agreement of the 28th June 1917 followed the lines of the Agreement of the 29th May. A credit of £32,000,000 during the months of July and August was authorised, subject to possible increase and also to reduction under certain conditions.

France

The amount of bills outstanding under this Agreement on the 31st August 1921 was approximately £225,000,000.

In addition to the bills referred to in the preceding paragraphs, bills were received to provide for the discount and stamps on renewal of the bills issued under the various Agreements. The total amount, of such supplementary bills so issued, outstanding on the 31st August 1921, was £105,792,500, making the grand total of French Bills held by the Treasury on that date £558,206,200.

Public Issues of French Treasury Bills.

Issue of  
16th January  
1915

In January 1915 arrangements were made between the French and British Governments for a public issue of £10,000,000 yearling French Treasury Bills. The bills were issued at a fixed discount of 5% and were drawn payable at the Bank of England. The Bank agreed to subscribe for such portion of the issue as was not applied for by the Public and, in consideration of this undertaking, received a commission of  $2\frac{1}{2}$  per mille, the commission to cover expenses other than the cost of stamping the bills. With regard to the question of a covering guarantee from the British Government, the Bank were informed by the

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

Treasury that no liability attached to any public fund of the United Kingdom in respect of such issues as this, except in cases in which a definite guarantee might have been given by the Treasury under powers conferred on them by statute: and that the Bank should in all other cases look to the issuing Government for recoupment of expenses, remuneration for their services and the refund of any loss arising out of the transaction generally. At the same time, as it might on some future occasion be desirable for reasons of public policy for the Bank to subscribe more largely to a particular issue than they would be disposed to do had their action been guided exclusively by commercial considerations, the Treasury assured the Bank that Parliament would not fail to give recognition to that fact in the event of loss to the Bank arising out of such a policy, provided always that the terms of the transactions had received the approval of His Majesty's Government.

France

The total applications received from the Public amounted to £7,572,000 only and the Bank therefore took up £2,428,000.

In order to guard against an excessive fall in the exchange on France sufficient to cause gold exports from England to France (a precaution that turned out to be needless), the Bank of England were empowered by the Agreement, as and when they thought fit, to present for payment in anticipation, at one or more times, Treasury Bills of this Issue up to a nominal amount of £4,000,000

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

in all. If the Bank of England intended to make use of this facility, the Bank of France were to be informed on each occasion at least seven days in advance as to the amount of the bills which were to be presented. The bills were to be repaid in francs at a fixed exchange of Fcs. 25 with deduction of the discount not earned at the time of presentation.

France

With regard to the repayment on the 15th January 1916 (the 16th being a Sunday) of the bills not previously redeemed, the French Government undertook to provide the money by 4 p.m. at the latest on the 14th January 1916.

The general terms of the Agreements for the succeeding issues were similar to the terms of this Agreement.

The bills were replaced by yearling bills  
 Issue of 15th January 1916 issued at a fixed discount of  $5\frac{3}{4}\%$ . The total applications received from the Public on this occasion amounted to £8,088,000 and the Bank therefore subscribed for the balance, viz., £1,912,000.

£7,290,000 of the bills (including such of  
 Issue of 15th January 1917 the Bank's bills as remained unsold) remained outstanding on the 15th January 1917, the balance having been converted under the terms of the prospectus of the 4th October 1916 for the issue of French Government 5% Rentes. £8,000,000 bills due 15th January 1918 were issued at 6% discount for which there was a large over-subscription.



CHAPTER IV. FOREIGN EXCHANGES

ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

France

Issue of  
15th January  
1918

The balance of this set of bills, viz., £7,978,000 was replaced by £8,000,000 twelve months' bills issued at  $5\frac{1}{4}\%$  discount; £22,000 bills had been converted into French 4% Rentes under the terms of the prospectus, dated 26th November 1917. The issue of bills was largely over-subscribed.

Issue of  
15th January  
1919

In January 1919 tenders were invited for £8,000,000 yearling bills in replacement of £7,843,000 bills outstanding, the balance having been converted into 4% French Rentes issued in November 1918. The bills were allotted at an average rate of discount of £4:11: 1.98%. In the case of this issue and that of January 1920 the Bank did not undertake to subscribe for such portion as was not applied for by the Public. The Bank made no charge for issuing the bills but the French Government paid expenses.

Issue of  
15th January  
1920

In January 1920 tenders were invited for £8,000,000 similar bills to replace those maturing. Only £1,744,000 bills were applied for and of these applications for £1,240,000 were accepted at an average discount rate of £6:15: 1.91. The balance of £6,760,000 bills were paid off. In order that this might be done, the Bank of England had to advance the French Government a portion of the money, viz., £2,000,000, but this loan was liquidated on the 27th January.

The bills for £1,240,000 were repaid on maturity.

---

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.French Loansissued through Bank of England.

The French Government issued four loans on the London Market, through the Bank of England, who charged out of pocket expenses only. The first three loans were for unlimited amounts.

France

The first and most successful issue was in November 1915, subscriptions being received at the Bank of England for 5% Rentes under the title of "National Defence Loan". The price was £3: 4: - per Fcs. 100 nominal capital being the equivalent at the exchange of 27.50 of Fcs. 88 the price of the issue in Paris. The total amount raised was Fcs. 602,426,400. This included French Treasury Bills and 3 and  $3\frac{1}{2}$ % Rentes accepted in lieu of cash payment to the extent of £637,129: 8: 2.

The prospectus of the next loan was issued in October 1916. The conditions of the loan were identical with those of the previous loan though its title dropped the word "Defence". The price on this occasion was £3: 4: 6 per Fcs. 100 capital which was the equivalent at the same rate of exchange of Fcs. 88.75 (Paris issue). Subscriptions were also received in Dublin: including 720 applications there, the total raised was Fcs. 450,709,800. The number of applications in London was about 16,700 as compared with nearly 26,800 in 1915. French Treasury Bills to the value of £2,687,755: 8: 4 were accepted in lieu of cash payment.

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

The third loan consisted of an issue of 4% France  
Rentes made in London (and Dublin) at the end of November 1917 under the title of "National Defence Loan". The price of issue was £2:10: 6 per Fcs.100, the equivalent at the exchange of 27.40 of Fcs.69.20, the price in Paris. No effort was made to encourage subscriptions to this loan as was done on the previous occasions, since it came into direct competition with the British Government National War Bonds. It was felt, however, that to exclude it altogether from the London Market would create a bad impression in view of the admission of previous issues. There were only 2,700 applications covering Fcs 67,972,900, Treasury Bills being accepted to the extent of £101,000.

A second issue of 4% Rentes for Fcs.520,000,000 was made on Armistice Day 1918, the price being £13:12: 4 per Fcs.500, the approximate equivalent at the exchange of 26 of Fcs.70.80, the price in Paris. The British Government undertook to take up any portion of the loan which was not subscribed by the Public and as there were only 3,117 applications covering a total of Fcs.387,407,500, the Treasury became responsible for Fcs.132,592,500. The issue being for a fixed amount, it was decided that it would be best to make it at one centre only and the services of the Bank of Ireland were therefore not required on this occasion.

A considerable number of applications for the various loans came from Belgian refugees and French and

---

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.

Belgian residents in England, but the bulk of the funds was provided by the British Public.

France

Arrangements were made to pay the coupons of all these loans at the Bank of England during the continuance of the War, the rate of exchange being fixed by the Financial Representative of the French Government in London about 10 days before the due date of the coupons; holders had, of course, the option of sending their coupons to France for payment. Being part of the French issue, the Rentes were issued in a large number of denominations and the figures of their numbers on the bonds ran into hundreds of millions. The payment of some hundreds of thousands of coupons yearly involved considerable labour, the more so as care had to be taken to pay only those coupons which were detached from the English issues. The bulk of the coupons were not lodged until after the publication of the agreed rate and the time afforded for checking the lists was contracted accordingly. The Bank of England's charge for the payment of the Bond Coupons\* was 10/-<sup>s</sup> on the sterling sums paid. This arrangement was agreed to at a time when exchange was quoted at about 28.50 and, with the fall in the French Exchange, the sums received for management bore a ratio to the work entirely different from that originally contemplated. Indeed it became apparent that the work was being carried on not only without profit but at a very heavy loss, due partly to this cause and partly to the fact that expenses had largely

---

\*No charge was made for the payment of Government coupons.

---

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.

increased since the rate of remuneration was fixed whilst the work involved had proved greater than was anticipated. The Bank decided, however, not to re-open the matter with the French Government until the termination of the War, when the question of the continuance of the payment of the coupons in London would automatically arise.

France

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.French Exchange Agreement.

The difficulty experienced by France in preventing the exchange with England from rising to a serious extent by reason of their unfavourable trade balance led the Governor of the Bank of France to propose in March 1916 that the Bank of England should grant a credit based partly on gold and partly on the discount of French Treasury Bills, to be used for the sole purpose of stabilising the exchange.

France

A preliminary Meeting took place on the 28th March between M. Ribot, the French Minister of Finance, Lord Cunliffe, Governor of the Bank of England, M. Pallain the Governor and two of the Regents of the Bank of France.

£24,000,000 had originally been mentioned by M. Pallain as the extent of the credit required, but at this Meeting it appeared that, subject to the Court's approval, the consent of Lord Cunliffe to a credit of £120,000,000 had been secured, while M. Pallain pressed for £160,000,000. Lord Cunliffe subsequently wrote that the Bank of England would not consider a credit for more than £120,000,000, which was a figure "at least ten times larger than any credit ever granted by any Bank to an Allied Government or Bank". Mr. McKenna, at that time Chancellor of the Exchequer, reduced the limit however to £60,000,000.

The Agreement was completed on the 25th April

---

CHAPTER IV. FOREIGN EXCHANGES

---

ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

The Bank of France guaranteed that no further credit operations would be undertaken by them in London during the currency of this Agreement except for the purpose of repaying the Bank of England, who were to be the Bank of France's sole intermediaries in London.

France

The French Minister of Finance also gave an assurance that he would not guarantee any further credit operations in London without the previous consent of the British Treasury.

On the 11th May 1916 a Meeting took place between the French Representatives and the London Exchange Committee, but after the preliminary arrangements of procedure had been made, dealings on this side were carried out by the Bank of England without reference to the Exchange Committee, who thenceforward took no part in these transactions.

A serious difficulty at once arose concerning the negotiability of the discounted bills. The Bank of England maintained that, although they did not contemplate acting upon it, they must possess the power to re-discount such bills: otherwise they would be making a loan without any negotiable instrument as collateral. The Bank of France, by sending bills for impracticably large amounts and by refusing their endorsement "in blank" had made it impossible for the Bank of England to exercise their option. The matter was eventually settled by the Bank of England's consenting to receive

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

Bills payable to Bearer, but issued in marketable denominations.

France

A further inconvenience arose more than once by reason of the non-arrival of the gold deposit in advance of the application to discount Treasury Bills.

The first purchase of Exchange in London took place in August 1916 with a view to bringing down the rate to about 28'12. Fcs.16,500,000 were bought. Between mid-October and mid-December more than another Fcs.126,000,000 were purchased in order to stabilise the Exchange at about 27'80. In April 1917 it was arranged that the Bank of England should not further intervene in the Exchange Market unless specially instructed to do so, and it is understood that from this time forward all Exchange operations were effected in Paris by the Bank of France.

The Bank had not at first sought any guarantee from H.M. Treasury in respect of the bills issued under the Agreement, but the Calais Agreement of the 24th August 1916 varied the April Agreement between the two Banks by substituting as the date for the termination of the credit a period of two years in place of six months after the conclusion of Peace. In these circumstances the Treasury, on the 9th September, conveyed to the Bank a formal guarantee.

In November and December of this year the Bank of France urged an extension of the credit by a further



CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

£12,000,000. This was the period of greatest financial difficulty, the action of the Federal Reserve Board, referred to in Chapter I, having added considerably to the general embarrassment of the Allies. The Bank of England were unwilling to extend the credit except upon Government guarantee. The Treasury at first demurred to this request, denying indeed the existence of a previous guarantee and pointing out that the profit on these transactions accrued to the Bank. An undertaking, similar to that of the 9th September, was however eventually obtained and a Supplementary Agreement concluded on the 19th January 1917. M. Pallain then - and on the previous occasion - protested against the rate of discount charged, but the Governor replied that he was sure the Bank of France would realise that the Bank of England would sooner be without the business, even at 1% over Bank Rate. France

As regards the undertaking of the Bank of France that the Bank of England should be their only intermediaries in London, it may be mentioned that in November 1916 it was brought to the notice of the Bank of England that the Bank of France had opened an account with Messrs. Samuel Montagu & Co. early in that month. An informal remonstrance was conveyed to the Bank of France, who promised to close this account.

In June 1917 the Bank of England again had occasion to complain of privileges accorded to Messrs. Samuel Montagu & Co., who were then found to be arranging a credit

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

for the Paris, Lyons, Mediterranean Railway, secured on French Treasury Bills. An explanation of the transaction was supplied by M. Avenol, the French Financial Agent in London.

France

No further incidents of much interest occurred until September 1918, when the rate of exchange having fallen below 27 and appearing likely to remain below that level, the Governor wrote to point out that by Article 5 of the original Agreement "the operation" of that Agreement was "now to be suspended". He suggested a reduction of the credit. The interpretation placed on Article 5 was disputed by M. Pallain, in whose view the Clause was held to refer only to fresh discounts and not to the renewal of bills previously discounted. Correspondence on this point only served to show that the real intentions of each party had been completely misunderstood by the other at the time when the arrangement was made. In spite of Conferences held in London, in October 1918, with Representatives of the French Treasury, and a further draft Agreement put forward by M. Avenol at the end of January 1919 (to which objection was taken by the Bank of England on the ground that their gold would be insufficiently protected), no solution of the difficulty was found.

In March 1919, the Bank of England learnt that the Chancellor of the Exchequer had entered into a fresh Agreement with the French Treasury. This Agreement, covering a further discount of French Treasury Bills by

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

H.M. Government, incidentally provided that the gold held by the Bank of England for the Bank of France in connection with the credit should be released and sold to H.M. Treasury.

France

The Agreement was not put into operation, but in December the Governor found that the Treasury were about to suggest to the French that the Gold Clause should take effect.

The Governor thereupon pointed out that the Bank had been no party to the Agreement and could not consent to release their security, of which in any case the French Government had no right to dispose: if the Treasury required the gold, they should take over the credit also. Upon this the matter was dropped.

Not long after the difference of opinion respecting Article 5 of the April Agreement became apparent the rate had risen once more above 27, and it did not again approach that figure in the period here dealt with. At the end of August 1921 the difficulty in regard to the interpretation of the Clause was still unsettled.

Returning to the period immediately subsequent to the Armistice, mention must be made that a part of the proceeds of a French Loan issued in London about this time was devoted to the repayment, as on the 16th November 1918, of £7,000,000 French Treasury Bills held by the Bank of England. This reduced the credit from £72,000,000 to £65,000,000 and gold amounting to £2,334,000 became returnable. This was shipped to France in February 1919.

---

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.

the balance of gold due under the Agreement becoming £21,683,948:15: -, at which figure it still stood on the 31st August 1921.\*

France

---

\*Of the last £4,000,000 gold (due under the Agreement of January 1917) £6,473:11: 6 was not received in gold but was debited to the account of the Bank of France.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## GREECE.

The Agreement was made with the Bank of England. The sum of £500,000 was advanced upon the security of the same amount of Greek Treasury Bills of twelve months' currency which were discounted by the Bank in the first instance at the rate of 5% per annum.

The bills were renewed in January 1916, being discounted at the rate of 6¼% per annum: the Greek Government were penalised on this occasion to the extent of three days' discount as the necessary arrangements for renewal were not completed until after the date of maturity of the first issue of bills. Further renewals were made annually in January, the rates of discount being 6¼% in 1917, 5½% in 1918 and 1919, 6½% in 1920 and 7% in 1921. A fresh Agreement was signed on each occasion by the Governor of the Bank and the Greek Minister or Charge d'Affaires in office at the time of renewal.

Under an Agreement of 10th February 1918 the British, French and United States Governments undertook to make certain advances to the Greek Government up to a limit of Fcs. 750,000,000 inclusive of Fcs. 50,000,000 advanced under an arrangement dated the 30th November 1917. £6,867,000 twelve months' Treasury Bills, renewable for a period of 5 years after the cessation of hostilities, were issued as security for advances made by the British Government, being discounted at the rate

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

of 5% per annum.

Greece

Of a total of £7,367,000 bills £5,267,000 were outstanding on the 31st August 1921 (the remaining £2,100,000 not being discounted until the 20th October following).

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

## ITALY.

Under an Agreement drawn up at Nice in  
 Agreement of 5th June 1915 June 1915, between the British and Italian  
 Governments, £50,000,000 Italian Treasury

Bills were discounted against a deposit of £10,000,000 in gold; this gold was not to be withdrawn until after the repayment of the bills when it was to be returned to the Italian Government.

The gold was received in six instalments between July and December 1915.

The bills were of twelve months' currency and were discounted in the first instance at the rate current on the date of each operation for yearling British Treasury Bills. When the issue of twelve months' British Treasury Bills was discontinued, it was arranged that Bank Rate on the day of the relative transaction should apply but after the 26th June 1920 this was altered to a fixed rate of 5%. The bills were renewable up to a period of two years after the conclusion of Peace.

The Bank of Italy undertook to "make every effort "to maintain the exchange at a level not unfavourable to "Great Britain, and with this object will refrain during "the period ..... from importing gold from London directly "or indirectly".

On 31st August 1921 the whole £50,000,000 bills were still outstanding.

By virtue of an Agreement of  
 Agreement of 19 Nov. 1915 & Supplementary November 1915, the Italian  
 Agreements of 15 July Government arranged to remit  
 & 25 Nov. 1916 & 22  
 March 1917.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

additional gold up to a total of £12,200,000 against which were to be discounted £122,000,000 twelve month Italian Treasury Bills, the gold to be returned on repayment of the bills. The gold was delivered between January 1916 and April 1917 in 8 instalments of about £1,600,000 each.

Italy

The bills were discounted at the rates mentioned in the case of the Nice Agreement: they were renewable up to two years after the conclusion of Peace after which date half of them might be extended on the same terms for a further two years and the remaining half for a period of four years.

Of the £122,000,000 bills referred to, Agreement of 15th July 1916 £65,000,000 were to be discounted to meet payments abroad, the exchange required by the Italian Government in New York being provided, as in the case of the Russian Government, by transfers from H.M. Treasury Account with Messrs. J. P. Morgan & Co., of the dollar equivalent of the proceeds of the discounted bills calculated at the rate of exchange of the day; whilst the remaining £57,000,000 were to be discounted for the purpose of purchases and interest payments within the United Kingdom. The Italian Government, however, found themselves unable to make use of the whole sums placed at their disposal for payments within the United Kingdom and a Supplementary Agreement was signed on the 15th July 1916 containing certain modifications with reference to £20,000,000 bills of the £57,000,000 referred to above.



CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

Italy

Agreement of 25th November 1916      The Agreement of the 25th November 1916 was supplementary to the two preceding Agreements and provided that the balance of the credits unexpended on the 31st December 1916 should be carried forward on the same terms as regards gold and rate of discount as in the original Agreement. The British Government undertook to supplement the unexpended credits in order to make a sum of £33,000,000 available.

Agreement of 22nd March 1917      The Agreement of the 22nd March 1917 was again supplementary to the three previous Agreements and Clause I provided that the balance of credits unexpended on the 31st March 1917 should be carried forward to meet existing commitments under those Agreements, as well as future commitments other than for expenditure in North America and for exchange.

By Clause II, the British Treasury undertook, pending a further Agreement, to discount Italian Government Treasury Bills for the following purposes -

- (a) Up to £8,000,000 in any one month in supplement of the sums available under Clause I for the same purpose.
- (b) £3,000,000 monthly to provide for the sale of sterling exchange by the Bank of Italy.
- (c) To cover further payments in North America up to \$30,000,000.

The bills issued under Clause II were twelve months' bills and were discounted at the Bank of England

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

rate on the day of discount, but this was subsequently altered to a fixed rate of 5%. The bills were renewable up to three years after the conclusion of Peace.

Italy

On the 31st August 1921 £369,290,000 bills were outstanding under the Agreements of November 1915 to March 1917 of which £247,290,000 bills were issued under Clause II of the Agreement of 22nd March 1917.

In November 1918 Mr. Bonar Law offered the Italian Treasury a further loan of £50,000,000 during the period 1st November 1918 to 30th June 1919 but, as the outstanding claims of the British Government Departments to be thus satisfied

exceeded the sum at first anticipated, a Supplementary Agreement was signed on the 18th February 1919 which provided -

1. That the balance of the loan unexpended at the end of January 1919, viz., £21,500,000 should continue to be available.
2. That a further £43,500,000 bills might be discounted making, with the amount of £21,500,000, a total of £65,000,000.

The rate of discount was not stated in the Agreement but the bills were discounted in the first instance at the Bank Rate prevailing at the time of discount and subsequently at 5%. No arrangements were made in the Agreement as to renewal or repayment, except that the first receipts accruing to the Italian Government in respect of

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

compensation and indemnity from the Enemy Governments should be applied to the liquidation of £30,000,000 of the bills, subject to such general principles as might be laid down by the Peace Conference as to the disposal of the assets made available by the Enemy Powers.

Italy

The Agreement stated that the relative credit was the final instalment of the loans to be accorded by the British Treasury to the Italian Government in

consequence of the War. However, on Agreement of 8th August 1919 the 8th August 1919 a further Agreement was signed; to complete the arrangements made in February 1919, the Chancellor of the Exchequer undertook -

1. to accept Italian Treasury Bills in payment of the outstanding debts to British Government Departments on the 30th June 1919.
2. to accept until 30th June 1920 Italian twelve months' Treasury Bills in payment of the discount on renewal of Italian Treasury Bills.
3. to discount further bills to the extent of £2,000,000 after the 30th June 1919 in addition to the bills offered in the Agreement of the 18th February 1919.

No discount rate was mentioned in the Agreement but the usual rate of 5% was charged.

The bills outstanding on 31st August 1921 under the Agreements of November 1918 to August 1919 amounted

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

to £78,070,000.

Italy

In June 1920, the Treasury agreed to accept at 5% discount for a further year Italian twelve months' Treasury Bills in payment of the discount on renewal of Italian Treasury Bills and in June 1921 the arrangement was extended subject to termination at six months' notice.

The grand total of the Italian Treasury Bills held by the Treasury on the 31st August 1921 was £497,360,000.

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLANDRehabilitation of the Exchange

Arrangements were made on the 24th March 1917 as the outcome of discussions between Lord Cunliffe and Signor Paolo Carcano, the Italian Minister of the Treasury, for an acceptance credit of £5,000,000 to be opened by certain British Banks and Accepting Houses in favour of six Italian Banks through the Banca d'Italia for the purpose of rehabilitating the exchange.

Italy

The Italian Banks drew three months' sterling bills on approved London Banks and Accepting Houses and sold the drafts to the Banca d'Italia, Rome; the latter forwarded the bills to Messrs. Baring Brothers & Co. Ltd., for acceptance and discount, giving them instructions as to the disposal of the proceeds. The London Banks and Accepting Houses gave an undertaking to renew the bills until one year after the termination of the War, as defined by English Statute. The Banca d'Italia undertook to put the London Banks in funds three clear days before the acceptances matured and deposited Italian Government Sterling Treasury Bills (due one year after the termination of the War) with the Bank of England as collateral security. A commission of  $\frac{1}{2}$  of 1% was paid by the Italian Banks through Messrs. Baring to the Acceptors at the time of acceptance.

The six Italian Banks and the extent to which they were permitted to draw are given below -

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

Banco di Napoli	£500,000	<u>Italy</u>
Banca Commerciale Italiana	1,500,000	
Credito Italiano	1,500,000	
Banca Italiana di Sconto	1,000,000	
Banco di Roma	250,000	
Banca Zaccaria Pisa	<u>250,000</u>	
	£5,000,000	
	=====	

A list of the London Banks and Accepting Houses and the total up to which they agreed to accept bills may be found in C.C.O. File 192/1.

The acceptances outstanding on the 31st August 1921 amounted to £3,420,000.

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## PORTUGAL.

Agreement of January 1916 The Agreement was made between the Bank of England and the Portuguese Government.

The Bank undertook to discount £2,000,000 Portuguese twelve months' Treasury Bills at 6% per annum with a commission of 5<sup>s</sup>/- per cent. per annum, the proceeds of the bills to be used exclusively for meeting payments in the United Kingdom.

The bills were to be renewed on the same terms for four further periods of twelve months each or until the expiration of twelve months after the conclusion of Peace, whichever was the shorter. The bills became repayable on the 9th March 1921 but, as a result of representations made by the Portuguese Government, the repayment date of £1,500,000 of the bills was postponed for a year longer. The bills were discounted on this occasion at 8%, 1% above the Bank Rate ruling; the customary renewal commission of 5<sup>s</sup>/- was also paid. This higher rate was charged as the renewal was a departure from the original Agreement and it was considered that the time had arrived when the terms for the credit should be made more nearly to correspond with actual conditions; although the Portuguese were informed that if they could give an assurance that no further request for renewal would be made the bills would be renewed at 6%.

Agreement of November 1916 In November 1916 the British Government arranged to grant a further loan by

CHAPTER IV. FOREIGN EXCHANGESALLIES' BORROWINGSARRANGED THROUGH BANK OF ENGLAND.

discounting Portuguese Treasury Bills in amounts to be approved. The bills were discounted at the Bank of England Rate ruling on the day of discount: the total thus approved and outstanding on the 31st August 1921 amounted to £17,074,000.

Portugal

The grand total of Portuguese Treasury Bills held by the Treasury on the 31st August 1921 was £18,574,000.



CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## ROUMANIA.

Agreement of  
21st January  
1915

The first Agreement established in connection with the discount of Roumanian Treasury Bills was between the Bank and the Roumanian Government. Under this Agreement Roumanian twelve months' Treasury Bills were discounted to the extent of £5,000,000 @ 5% and were renewed from year to year, being ultimately repayable within one year after the conclusion of Peace. The rate of discount was Bank Rate with a minimum of 5%.

Agreement of  
14th October  
1915

On the 31st August 1915, the Roumanian Minister wrote to the Chancellor of the Exchequer with a view to obtaining a further loan of £7,000,000 for the Government of Roumania on similar terms to those of the previous Agreement. The Chancellor stated that he would be prepared to arrange for the discount of the bills through the Bank as soon as he learnt from the Foreign Office that the conditions regarding the transit of contraband of war through Roumania had been definitely settled, and on the 14th October 1915 a second Agreement was signed for the discount of £7,000,000 bills by the Bank of England; of this total, however, only £5,000,000 bills were actually dealt with. The bills, which were renewable until one year after the conclusion of Peace, were discounted at Bank Rate (minimum 5%) and were replaced on the 14th October 1916 by a similar amount of bills due twelve

CHAPTER IV. FOREIGN EXCHANGES

ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

months later. At the same time a further Agreement was Roumania  
signed to enable the Roumanian Government, subject to the  
approval of the Treasury, to present for discount, as and  
when required, additional bills for the £2,000,000 by  
which the bills already discounted fell short of the total  
authorised in October 1915.

On the 29th January 1917, the Treasury  
Treasury Letter notified the Bank that negotiations were  
29th January 1917 in progress for a further Financial Agree-  
ment with the Roumanian Minister covering an amount of  
£500,000 but that they did not desire the Bank to be a  
party to the Agreement as on previous occasions. The  
proceeds of the discounted bills were from time to time  
paid over by the Bank to foreign Banks specified by the  
Roumanian Minister for the payment of the coupons of the  
Roumanian Rentes.

In the following March the Treasury  
Treasury Letter agreed to discount, at the Bank of  
27th March 1917 England Rate ruling on the day of  
discount with a minimum of 5%, a further £500,000 bills.  
The proceeds of the bills were used for the payment of the  
interest on the Roumanian Rentes due in April 1917 and for  
settling various accounts with the War Office and the  
Ministry of Munitions.

Under an Agreement of 31st March 1917 the  
Agreement of Treasury undertook to set up credits in  
31st March 1917 favour of the Roumanian Government, out of  
a sum of £40,000,000 promised to the latter by the Allies,

CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

by discounting Roumanian twelve months' Treasury Bills at the official rate of the Bank of England on the day of discount with a minimum of 5%: this rate was eventually fixed at 5%.

Roumania

The bills issued under this Agreement were renewed at maturity subject to final redemption within one year after the conclusion of Peace.

The Roumanian Government were to avail themselves of the arrangements made by the British Government for the regulation of the American Exchange in regard to all payments to be made in North America out of the credits and they further agreed not to purchase any Foreign Exchange except from the British Treasury or, with their approval through the Bank of England.

Under Clause XI of the Agreement non-interest bearing British Government obligations were exchanged for an equivalent face value of Roumanian Treasury Bills in order to provide cover in London for the Roumanian Note Issue; the amount of the Roumanian Bills issued in this respect and outstanding on the 31st August 1921 was £12,000,000.

The total amount of the other bills issued under this and the foregoing Agreements and outstanding on the same date was £21,352,300.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## RUSSIA.

Agreement of  
30th October  
1914

In October 1914 the British Government agreed, in consideration of the shipment of £8,000,000 in gold to London, to discount Russian twelve months' Treasury Bills for £12,000,000, the rate of discount to be that at which the British Government could borrow for the same period for their own needs. The bills were discounted at 4% and were drawn payable at Messrs. Barings.

By this means the Russian Government had available in London £20,000,000 of which £8,000,000 was to be applied for the purpose of providing Exchange for Anglo-Russian trade and the balance for paying interest on Russian Government Debt payable in London and for financing purchases in the United Kingdom.

The Agreement laid down that, if on the maturity of the bills it should be impossible to consolidate the Debt, the Russian Government could renew the bills on the same terms; accordingly, on the 1st November 1915 the bills were replaced by a similar amount due the 31st October 1916, the rate of discount being fixed at 5%.

The subsequent renewal of the bills issued under this Agreement and similar Agreements dated prior to the 27th October 1916 was provided for by Clause VI of the Agreement of that date until one year after the conclusion of Peace.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

Russia

Agreement of  
1st February  
1915

On the 1st February 1915 a second Agreement was signed, authorising the discount at 6% of £20,000,000 bills due 31st January 1916, with the proviso that, in the event of a deposit of gold with the Bank of England by the Russian Government at any time during the currency of the bills, the rate of discount should be diminished by 1% per annum from the date of the receipt of the gold to the date of maturity of the bills, calculated on an amount of the bills equal to one and a half times the amount of the gold. The Clause for the renewal of the bills at maturity, subject to the rebate mentioned, was in the same terms as the previous Agreement.

Agreement of  
29th April  
1915

An Agreement dated 29th April 1915 was entered into to provide for the liquidation of Bills of Exchange accepted in London on behalf of Russian clients and carried by means of advances from the Bank of England. An issue of £10,000,000 bills, due 1st May 1916, was authorised at 5%, and their renewal, if necessary, for a further period of twelve months at the same rate. Up to the date of their maturity only £7,865,000 bills had, however, been discounted; these were replaced by a similar amount of bills due 30th April 1917, whilst it was also arranged that the balance might be discounted as required. The ultimate total of bills discounted was £9,143,000.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

## ARRANGED THROUGH BANK OF ENGLAND.

Agreement of 6th July 1915      The Agreement of 6th July 1915 covered      Russia  
the discount of a further £25,000,000  
bills at 6% under conditions similar to  
those of the two previous Agreements.

Agreement of 29th July 1915      The Agreement of 29th July 1915 arranged  
for the issue of an additional £25,000,000  
bills and for their discount at 6% "pro-  
"vided always that any arrangements which might ultimately  
"be agreed upon between H.B.M. Government and the Imperial  
"Russian Government in consultation regarding future  
"advances should apply to that contract". The renewal  
of the bills was provided for as in previous cases, subject  
to the above-mentioned Clause.

London Agreement of 30th September 1915      Owing to the insistent needs of the  
Russian Armies the British Government  
undertook, under the London Agreement  
of 30th September 1915, to provide the Russian Government  
in each of the twelve months October 1915 to September 1916  
with credits not exceeding the monthly average of  
£25,000,000 which were to be furnished against the deposit  
of twelve months' Russian Treasury Bills, the £5,000,000  
bills which were to be issued under a further Agreement  
made on 6th October 1915 (see below) being included in this  
total.

Bills to the extent of £295,000,000 were discounted  
under the Agreement at 1% above the Bank of England Rate  
current at the time of discount.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

In view of the Agreement made in Boulogne on Russia  
the 22nd August 1915 between the British and French  
Governments that each should hold ready for export to  
the United States a sum of £40,000,000 in gold, the  
Russian Government consented, in the September Agreement,  
to "furnish the British Government with gold for the  
"same purpose, to be exported, from time to time, in the  
"same amounts as are being exported on account of the  
"British and French Governments, subject to the limita-  
"tion that the Russian Government shall not be called  
"upon to ship gold in excess of £20,000,000 before 31st  
"March 1916 nor more than £40,000,000 altogether, and  
"on the understanding that gold will be exported only  
"according to the needs of the situation, as judged by  
"the Bank of England".

The Russian Government delivered gold to the  
extent of £20,000,000 during the period January/July  
1916\* and a further £20,000,000<sup>+</sup> in the following  
December: the gold was used for the purchase by them  
of British Government Exchequer Bonds bearing no interest,  
payable in gold, and running for 3, 3½, 4, 4½ and 5 years,  
in equal quantities, to be held by the Russian Government  
until maturity.

For the purposes of the Russian Note issue,  
Clause VI of the Agreement provided that, pending the  
successful consolidation of the Russian internal debt,  
the British Government would exchange with the Russian

---

\*Of which £4,000,000 was shipped to Japan and the balance  
to Ottawa.

<sup>+</sup>Shipped to Ottawa.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

## ARRANGED THROUGH BANK OF ENGLAND.

Government equivalent obligations, in such instalments as the latter Government might require to an amount not exceeding £200,000,000 altogether. On the part of the Russian Government these obligations were to consist of non-interest bearing Treasury Bonds: on the part of the British Government, of fixed book-credits, which were not to be drawn upon. The arrangement was not to extend beyond one year after the conclusion of Peace, the equivalent obligations being cancelled on both sides not later than that date.

Russia

By the Agreement of the 6th October 1915 already referred to the issue of £5,000,000 bills was authorised; they were discounted at 6% with the provision that any arrangements regarding future advances, which might ultimately be agreed upon in consultation between H.B.M. Government and the Imperial Russian Government, should apply equally to this Agreement.

The next Agreement (27th October 1916) was supplementary to that of the 30th September 1915. The British Government undertook to provide the Russian Government with a credit of £25,000,000 in each month from October 1916 to March 1917 under the same conditions as those stipulated in the September Agreement. The bills were discounted at 6%, that is to say, 1% above the current Bank of England Rate, an arrangement being made for an extra 1% to be charged if



## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND

Bank Rate stood at 5% and for the rate of discount to be the same as Bank Rate if over that figure.

Russia

The Russian Government undertook to ship gold upon request up to a further amount of £20,000,000 on the understanding that the British Government would not require the shipment before 1st January 1917 and would only ask for the gold in the event of the gold in the reserves of the Bank of England and the Currency Note Account taken together not exceeding £85,000,000. The reserves were considerably below this figure when the Agreement was made, and remained so. The gold was shipped in February 1917\*. As in the case of the Agreement of 30th September 1915, British Government Exchequer Bonds<sup>+</sup>, payable in gold, were to be issued in exchange for the gold but the bonds were not in fact ever delivered.

The bills discounted were renewable until one year after the conclusion of Peace, the rate of discount in each case being calculated according to the principle by which the rate was determined when the bills were originally discounted. The Agreement also provided for the renewal, for the same period, of bills discounted under previous Agreements.

In May 1917 the Russian Revolution took place. The Republican Government formed by M. Kerensky carried on the Agreements entered into with the Imperial Russian Government and bills continued therefore to be issued and

---

\*£4,000,000 to Japan and £16,000,000 to Ottawa.

<sup>+</sup>These (unlike the Bonds of the September 1915 Agreement) were to carry interest "at the same rate as that at which Russian Government Treasury Bills" were discounted under Clause 6 of the October 1916 Agreement.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

renewed while the Cabinet of M. Kerensky was in power. However with the advent of the Soviet Government at the end of the year financial relations broke down completely and from the early part of 1918 the bills remained in the vaults of the Bank unpaid and unrenewed. The total held on behalf of the Treasury amounted to £560,632,000 on 31st August 1921.

RussiaPublic Issues.

22nd February 1915 The first public issue of Russian Government Treasury Bills was made in February 1915 for £10,000,000 and was oversubscribed; the Bank were therefore not required to take up any of the bills, as they had undertaken to do in case of need.

The bills were of twelve months' currency and were issued at a fixed discount of 5%, the Bank receiving a commission of  $\frac{1}{4}\%$  on the nominal amount of the issue, the costs of production, stamp duty and all other issue expenses being paid by the Russian Government. Brokerage of  $\frac{1}{8}\%$  was allowed.

The bills were drawn payable at the Bank and the Russian Government undertook to provide funds at the Bank of England on the 20th February 1916 at latest for the repayment of the bills which fell due on the 21st February.

21st February 1916 The bills were replaced by a similar amount, issued at a fixed discount of 6%, the renewal Agreement following the same lines as the first.

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

The issue was not fully subscribed and the Bank therefore took up £450,000 bills, in accordance with their undertaking. The Treasury guaranteed the Bank against any loss they might incur in this connection, on the understanding that the Bank should thenceforward receive interest on the amount they had purchased at the rate of  $\frac{1}{2}\%$  below Bank Rate varying, the difference between that amount and  $6\frac{3}{8}\%$  (representing discount, plus commission, plus brokerage) to accrue to H.M. Treasury.

Russia

The bills were replaced by a third set dated 28th January 1917, again under similar conditions. The Bank took up £1,409,000 bills and were again guaranteed against loss by the Treasury receiving interest at  $\frac{1}{2}\%$  below Bank Rate varying and paying the difference between the amount received and 6% to the Treasury.

Allottees had the option of tendering bills due on the 21st February 1917 in payment for the new bills, discount being calculated at  $5\frac{1}{2}\%$  on the bills surrendered.

In January 1918, the Russian Minister of Finance in London informed the Bank that, owing to the disturbed conditions in Russia and to the impossibility of communicating with the Russian Ministry of Finance, he was not in a position to provide funds to meet the bills for £10,000,000, due on the 28th of the month.

The Chancellor of the Exchequer thereupon decided that, although H.M. Government had no direct responsibility

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

to the holders, the circumstances were such that the Government might properly render assistance.

Russia

Accordingly, the Bank were authorised by the Treasury to offer British Government 3% Exchequer Bonds 1930 in exchange for the Russian Government Treasury Bills at the rate of £100 in bonds for every £100 in bills. The exchange was effected subject to the express condition that no legal or other action should be taken by or on behalf of the holders of the bills surrendered in respect of their non-payment at maturity.

The result of the offer was as follows:-

Bills surrendered in exchange for	
3% Exchequer Bonds 1930	£8,380,000
Bills, previously held by the Bank	
under Treasury guarantee, repaid	
by H.M. Government	1,409,000
Bills noted for non-payment by holders	206,000
Bills of which the holders expressed	
their intention not to exchange	
for Exchequer Bonds	1,000
Bills in respect of which holders did	
not inform the Bank of their wishes	4,000
	<hr/>
	£10,000,000
	=====

---

CHAPTER IV. FOREIGN EXCHANGES

---

ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

REHABILITATION OF THE RUSSIAN EXCHANGE.

As a result of negotiations between Lord Cunliffe, Russia Governor of the Bank of England, and M. Bark, Russian Finance Minister, arrangements were made in the Autumn of 1915 with a view to the rehabilitation of the Russian Exchange.

Certain Russian Banks drew three months' Sterling Bills on approved London Banks and/or Accepting Houses and sold the Drafts to the Banque de l'Etat, Petrograd; the latter remitted the bills to Baring Bros. & Co. Ltd. for acceptance and discount instructing them as to the disposal of the proceeds, the bills being renewable up to one year after the termination of the War as defined by English Statute. The Banque de l'Etat undertook to put the London Banks and Accepting Houses in funds three clear days before the acceptances matured and deposited Imperial Russian Government Sterling Treasury Bills (also maturing one year after the termination of the War) with the Bank of England as collateral security. The London Banks and Accepting Houses were paid through Messrs. Baring  $\frac{1}{2}$  of 1% Commission at the time of the acceptance of the drafts.

No drafts were to be drawn by any of the Russian Banks under this Agreement if the Russian Exchange fell below 115. Lists of the Russian Banks and of the London

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## REHABILITATION OF THE RUSSIAN EXCHANGE.

Banks and Accepting Houses and details of the extent to which the latter agreed to accept drafts may be found in C.C.O. File 493/127.

Russia

The total of the credit arranged was £7,515,000 against which £7,500,000 Imperial Russian Government Sterling Treasury Bills were lodged at the Bank of England, the title of these bills being altered after the Revolution to "Russian Government Sterling Treasury Bills". The arrangements worked smoothly until the downfall of the Kerensky Government at the end of the year 1917 when, as a result of representations which the Bank made to H.M. Treasury, the latter decided to render assistance by issuing to the Acceptors of the drafts 3% Exchequer Bonds 1930 up to the amount of the acceptances which had not been provided for at maturity. The acceptances taken over amounted to £7,260,000 and these were still held on behalf of H.M. Treasury in the vaults of the Bank of England on the 31st August 1921.

See also P.139 Vol I Section 12F

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

ARRANGED THROUGH BANK OF ENGLAND.

## SUMMARY

OF FOREIGN TREASURY BILLS HELD O/A H.M. TREASURY  
AS ON 31ST AUGUST 1921.

Armenian	£829,634: 9: 3
Belgian	9,000,000: -: -
French	558,206,200: -: -
Greek	5,267,000: -: -
Italian	497,360,000: -: -
Portuguese	18,574,000: -: -
Roumanian	33,352,300: -: -
Russian	560,632,000: -: -
	<hr/>
	£1,683,221,134: 9: 3
	=====

## CHAPTER IV. FOREIGN EXCHANGES

## ALLIES' BORROWINGS

## ARRANGED THROUGH BANK OF ENGLAND.

A note may be appended of the British Colonial issues made through the Bank of England during the period.

Date of Prospectus

26th February 1915	£11,728,800	Queensland 4½% 1920/25. (To provide for redemption of 4% Loan due 1915)
10th October 1919	£3,500,000	Sudan Government 5½% Guaranteed Bonds. (To meet expenditure on Irrigation and Railways)
15th December 1919	£2,000,000	Queensland 6% 1930/40. (For construction of Railways and other Public Works)
26th February 1921	£2,880,000	Sudan Government 5½% Guaranteed Bonds. (Irrigation and Railways)
20th April 1921	£7,500,000	India 7% 1926/31. (Entire proceeds to be used for the purchase of Railway material in the United Kingdom)
27th June 1921	£5,000,000	New Zealand 6% 1936/51. (£3,000,000 required for payment of contracts in United Kingdom, for the supply of rolling stock and material required for the extension of Railways and Public Works)
13th December 1921	£10,000,000	India 5½% 1932. (Proceeds for Indian Railway purposes)