Chapter I

BANKING DEPARTMENT SECURITIES ETC.

1. Long and Middle Term Securities and Tax Reserve Certificates

At a periodic review shortly after the outbreak of war of securities held in the Banking Department it was reported that the position was one of liquidity, that maturities were well-spaced and that there seemed no reason to make any changes. The book value of Government Securities at this time was approximately £58 million.

The first wartime alteration in holdings took place early in 1940 when an opportunity occurred, from the taxation stand-point, of taking the profit on certain of the holdings of Irredeemable Stocks which stood in the Bank's books at a nominal figure, and of reinvesting the proceeds in Redeemable Securities. £1 million 4% Consolidated Stock and £500,000 3% Local Loans Stock were accordingly sold and the proceeds reinvested in 4% Funding Stock 1960/90.

At about the same time, as part of the Bank's endeavour to ensure the success of H.M.Government's operations, £5 million 2% Conversion Stock 1943/45 was purchased, in the form of 4½% Conversion Stock 1940/44 (Assented), from a number of Discount Houses. This purchase was offset by the sale of 2½% National War Bonds 1944/48.

In December 1941 Tax Reserve Certificates amounting to approximately £500,000 were taken up; this sum represented the Bank's estimated tax liabilities for which provision had already been made. It was decided to take up further amounts as and when appropriate.

There was no further important change until March 1943 when, in order to help London to reach the target in their "Wings for Victory" Week the Bank took up £3 million 2½% National War Bonds 1951/53*.

On 16th March 1943 an amount of £142,374: -: 2 5% Conversion Loan passed through the Bank's books. The Stock was received from Lloyd's Bank and was sold on the same day. This transaction was connected with certain guarantees given to Lloyd's Bank when they took over Messrs.Cox & Company in 1923. There was a Building guarantee by the Treasury for £400,000 and a General guarantee for

*Together with another £1 million National War Bonds and £1 million Savings Bonds for the Issue Department. Part of £34.6 million and £32.1 million respectively: see table at end of Chapter ... "Dap Loans" for £500,000 by the Bank, but in 1927 the Bank offered to take over the former liability from the Treasury and did so, although a substantial loss was expected.

In 1930 a settlement with Lloyd's Bank was made under which the Bank of England paid £160,000 in cash and transferred £177,007: 8: 8 5% Conversion Stock to Lloyd's to cover payments in respect of Cox & Company's unclaimed balances. The Bank of England received the interest on Conversion Stock, the amount of which was diminished by sales as claims on the balances were met. In March 1943 the remainder of the Stock was returned to the Bank, who undertook to continue to meet any claims on Cox's balances.

In May 1943 the Committee of Treasury were informed that the last of the Bank's holdings of "Indian, Colonial & Guaranteed Stocks" had been sold and that only £150,000 remained of the Advances to School Boards, etc. (made towards the end of the 19th Century). Previously during the war the maximum nominal amount of Guaranteed & Colonial (Dominion) investments held had been £9 million - Indian securities had gone earlier.

In September the holding of £5 million 2% Conversion Stock 1943/45, which yielded less than 1%, was sold. At the same time £8 million 2½% National War Bonds 1949/51 were bought and £2 million 2½% National War Bonds 1952/54 were taken up by tap, partly to replace the 2% Conversion and partly to increase income, which had been reduced during the past year or so by the sale, notably, of New Zealand 3½%, London Electric Transport and Railway Finance Corporation Stocks.

Further small amounts of Tax Reserve Certificates were acquired from time to time, and in January 1944 it was agreed that the holding should be raised to and maintained at £1,250,000 in view of a re-assessment of the Bank's probable tax liabilities over a two-year period; an amount of £1 million of Certificates was accordingly purchased.

In March 1944 £2 million* 2½% National War Bonds 1952/54 were taken up by tap during London's "Salute the Soldier" Week, in anticipation of a similar amount of 2½% National Defence Bonds 1944/48 which

* Part of £20 million in all, see table at end of Chapter...... "Tap Loans"

which were to be drawn for repayment in the following September.

In August a further £1 million 2½% National War Bonds 1952/54 were subscribed for and a like amount of 2½% National Bonds sold.

2. Ways & Means Advances

Ways & Means Advances continued to play an essential part in the financing of the Government's needs. But, whereas in the last War the Bank of England lent to the Government in the form of Ways & Means Advances and offset these Advances by borrowing from the banks, on this occasion the bulk of the banks' temporary surplus funds was borrowed direct by the Government under the Treasury Deposit Receipt scheme, and the need for Ways & Means Advances was confined to the day-to-day balancing of Exchequer receipts and payments.

Ways & Means Advances tended to be high at the end of June and December at the time of the banks' make-up (e.g. December 1940 maximum £60 million; December 1943 maximum £72 million) but these technical positions were of short duration. At other times of the year Advances were generally intermittent and seldom large. On certain occasions, however, Advances assumed a more permanent character, associated in general with various National Savings drives, e.g. "Wings for Victory", "Salute the Soldier", etc. These drives, involving special "Weeks" for different areas, resulted in a definite disturbance of the level flow of investments into Government "tap" loans, particularly the London "Weeks". It was necessary therefore that during these periods banks should be kept particularly liquid, with the result that monies which would normally have been taken by the Exchequer in the form of Treasury Deposit Receipts were temporarily borrowed from the Bank. (In the London "Warships Week" Ways & Means Advances varied from £20 million to £60 million; in the "Wings for Victory Week" from £26 million to £50 million, and in the "Salute the Soldier Week" from Nil to £33½ million).

Apart, however, from such special features the normal weekly turnover of money on Government account by the end of the fifth year of War was in the neighbourhood of £700 million (see below), the control of which was complicated by considerable variations in

the daily

the daily volume of subscriptions to "tap" loans and by the consequently increased fallibility of Treasury estimates. These factors necessitated daily attention to avoid so far as possible an undue disturbance of the cash base by a resort to Ways & Means Advances and to prevent the immobilisation on Government accounts of temporarily surplus funds.

(The following figures do not represent those of any particular week but exemplify a typical weekly movement late in the War).

£ millions

Receipts		Payments	
Treasury Bills	160	Treasury Bills maturing	150
Treasury Deposit Receipts	100	Treasury Deposit Receipts maturing	80
Loan Proceeds	25	Supply	120
Revenue	65		
	350		350

Interest Rates

The Bank's charges for Ways & Means Advances were normally reviewed annually, subject to reconsideration in the event of changes in the Bank or Market rates. Rates in force immediately before the War, together with subsequent changes, are given below; the substantial adjustment in February 1942 in favour of H.M.G. was designed to offset the higher level of advances naturally associated with a vastly increased turnover arising from war expenditure.

February 1939 - August 1939	½% on the first £5 million ¾% " " second £5 " 1% " amounts over £10 million
24th August 1939 (Bank Rate raised from 2% - 4%)	1% on the first £5 million 2% " " second £5 " 3% " amounts above £10 million
28th September 1939 (Bank Rate reduced to 3%)	1% on the first £5 million 2% " " second £10 million 2½% " amounts above £15 million
26th October 1939 (Bank Rate reduced to 2%)	½% on the first £5 million ¾% " " second £5 " 1% " amounts above £10 million
28th February 1942 -	½% on the first £10 million ¾% " " second £10 " 1% " amounts above £20 million

3. Discounts

3. Discounts

Treasury Bills

The extent to which the Bank is called upon to discount bills depends, of course, a great deal on the policy adopted by its customers for the employment of their surplus sterling funds. Before the war many of the Central Banks invested in Treasury Bills, which they discounted as and when necessary.

After the outbreak, however, a fall of some 40% in the number of discount operations, due mainly to the fact that many Central Banks, previously consistent discounters, became "enemies" or enemy controlled. In spite of this the total of discounts increased, averaging yearly £77 million in the first five years of the war against £66 million in the five years to September 1939. The divergent trend of numbers and amount is explained to a great extent by a few very large discounts in connection with special operations, some examples of which are given below. Consequently the holding of discounted bills shows a much wider variation during the war: between 1935 to 1939 it varied from £500,000 to £12½ million and between 1940 and 1944 from nothing to £43 million. The average currency of the bills discounted in 1940/44 was only 15 days as compared with 26 days in the previous five years. Thus, in spite of the greater amount discounted during the war years, the average holding fell from £4½ million during 1935/39 to £3 million during 1940/44. Figures for the years covered were -

	Total Discounted	Average Currency		Total Discounted	Average Currency
1935	£50,280,000	31 days	Sept./Dec. 1939	£9,170,000	24 days
1936	£56,895,000	26 "	1940	£42,110,000	13 "
1937	£65,160,000	21 "	1941	£80,820,000	28 "
1938	£88,315,000	25 "	1942	£48,915,000	16 "
Jan./Aug. 1939	£47,500,000	29 "	1943	£101,645,000	6 "
Average p.a. Jan.1935 to Aug.1939	£66,030,000	26 "			

Apart from the Central Banks a number of public and semi-public bodies, Indian Railway Sinking Funds and old commercial customers of the Bank, continued to discount. In addition, Treasury Bills were discounted on a fairly substantial scale for some of the

refugee

refugee Governments.

An interesting discount was that for £245,000 on the 28th December 1939, the last example of the many discounts for the Running Brokers, Jones & Brown, at market rates in periods of tight money, just before it became necessary for the Discount Market openly to seek the assistance of the Bank. On this occasion and subsequently throughout the war the Market's requirements were covered by open market operations.

Particulars of certain Discounts

March 1941	Reserve Bank of India (vesting of the India dated Sterling Stocks)	£40,000,000
January 1943	Reserve Bank of India (redemption of India 3½% Stock 1931)	£18,000,000
February 1943	South African Reserve Bank (vesting of 5 South African Stocks)	£14,000,000
March 1944	Royal Netherlands Government (in anticipation of the opening of the Netherlands Indies Government Account)	£7,000,000
do.	Reserve Bank of India (purchase of 2½% National War Bonds 1946/48)	£5,000,000
do.	Reserve Bank of New Zealand (payments to Commonwealth Bank of Australia and Bank of New Zealand o/a War supplies)	£8,000,000
April 1944	Reserve Bank of India (purchase of £10 million 2½% National War Bonds 1946/48 and payment to Secretary of State for India o/a Indian Railways)	£14,000,000

Commercial Bills

Apart from a very small number of discounts during the early part of the war for trading customers of long standing, commercial bills were discounted for four banks only -

Banco Central de Bolivia
Banco do Brasil
Bank Mellie Iran
Federal Reserve Bank of New York

Some £1,300,000 bills were discounted for the Bank of Bolivia between October 1940 and May 1941. These bills represented the surrender of devisen by Bolivian exporters in respect of tin sent to the U.K. and were discounted as and when Bolivia's sterling funds

were

were running low. The Bank accepted this business at the request of H.M.G. although urging that the Bolivians should dispose of the bills through their usual commercial banking correspondents: this they did after May 1941. In October 1940 when Brazil was short of sterling the Central Bank drew a 90-day bill for £150,000 on Rothschilds endorsed to the Bank of England and discounted here. The bill was renewed once and was again discounted.

The discounting of bills for Central Banks having only Special Accounts, opened as a direct result of Payments Agreements, brought up a point of interpretation of the Internal Regulations under which bills are good for discount provided, inter alia, that -

> "They bear two names affording adequate British security one of which shall be that of the Acceptor or Maker. In the case of Bills offered for discount by a Central Bank ..... the endorsement of the Central Bank ..... may be taken as the equivalent of the second British name.
>
> Any departure from these conditions shall require the authority of the Governor."

It was thought that to take the endorsement of such Central Banks, while in accordance with the Regulation, was not within the spirit of it. Nevertheless, it was essential for the proper working of the Agreements that the Central Banks should be in a position to remit sterling bills for discount. A ruling was therefore sought by the Discount Committee, and a favourable decision was given by Committee of Treasury on 20th November 1940.

On 18th October 1939 the Federal Reserve Bank discounted £25,000 commercial bills, a figure at which their holding had stood since March 1935. The Reserve Bank's action in reducing their sterling holdings with the Bank of England from £50,000, divided equally between their Drawing Office balance and commercial bills, to £5,000 held on their current account, was prompted by the existence of the U.S.Neutrality Act and was taken to forestall any criticism which might arise in the U.S.A. as to their position vis-a-vis the United Kingdom.

4. <u>Treasury Bills: Purchases and Sales</u>

Excluding the seasonal fluctuations which are a normal

feature

feature in peace or war of the Bank's operation of market control, the trend in the volume of the Bank's holding of Treasury Bills was directly related to the constant increase in the note circulation and to the equally constant need for an expanding credit base. Regular increases in the Fiduciary Issue were met by simultaneous reductions in the Banking Department's Bill holdings, while in the intervening periods the Bank were under the necessity of building up their holding to offset the persistent reduction in the banking reserve and to provide the bankers with sufficient cash cover for their increasing deposits.

A notable feature was the large and constantly growing volume of "Money Employed" (in Treasury Bills) on behalf of Central Banks, which tended to assume such proportions as to absorb the bulk of the weekly offerings of Treasury Bills, to the detriment of the Bill portfolios of the clearing banks*; it was also responsible on occasions for sudden large movements in the Bank's own net holdings as, for example, in October 1941 when, in payment for a vesting of Canadian securities, the Bank of Canada withdrew about £30 million from "Money Employed" with, of course, a like increase in the Bank's own bill holding.

The threat that Central Bank customers' requirements would completely swamp the weekly offers of Treasury Bills was lessened by the introduction of special arrangements which extended the facility of "tapping" for Bills, normally reserved for Government Departments, to certain Empire Central Banks (Canada** and India†) whose accumulations of sterling on Government account were a particular source of embarrassment, thereby making available to the market a larger proportion of the weekly tenders. These arrangements were considerably extended after the war.

The proportion, however, of the London Clearing Banks "Bills Discounted" (which included their Treasury Bills) to "Total Deposits" continued to fall. It had been 11.3% in 1939 and 14.7% in 1940. In 1941, it declined to 7.8%, was 7.2% in 1942 and only 5% in 1943 and 4.1% in 1944.

Between

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*See also Part I, Chapter .... on Treasury Bills.
**1st July 1941 - 28th May 1942.
†9th March 1942.

Between the two wars the Bank's open market operations in Treasury Bills, combined with variations in the amount of Bills offered weekly, afforded the chief means of regulating the Cash Base. With the introduction of Treasury Deposit Receipts in the summer of 1940 both of the previous methods became of less importance. The amount of Treasury Bills sold each week, though growing from year to year, became comparatively stable, and transactions were confined to the necessary daily adjustments of the Market position. The Cash Base, on which a note is appended to this chapter, was chiefly maintained by varying the weekly amounts borrowed directly from the banks by the Treasury on Treasury Deposit Receipts. But an exception to this occurred towards the end of each half-year when the banks were making up their accounts for publication and were consequently "window dressing". On these occasions (as a statement in the Cash Base Section shows) the extra cash required was furnished almost entirely by Ways & Means Advances and by purchases of Treasury Bills, but particularly by the latter. In December 1943 and 1944 the Market was unable, owing to the incidence of maturity dates, to make the Treasury carry, through the Treasury Bill tender, some of the burden over the year end. That is to say, it was unable to apply the usual technique of having many maturing bills in the old year and not paying for the new bills till the end of the week in the new year.

After the half-yearly balancing the Bank usually resold large amounts of Treasury Bills, which large operations would not involve the Bank in loss*.

5. Advances

Throughout the war, the Bank of England in common with all other banks were governed by the request of the Chancellor of the Exchequer made in September 1939 that banks would avoid a diversion of resources towards non-essential needs by restricting advances to purposes directly associated with the prosecution of the war. The request was supplemented by the control of the Treasury - through the

Capital

*Assuming a Tender Rate of 1%, a buying rate of 31/32% and a selling rate of 1 1/32%, the Bank could sell without loss bills taken up by tender after three days and bills taken up on the Market after one day if of 16 days' currency, two days if of 30 days' currency or four days if of 60 days' currency.

Capital Issues Committee - on borrowing in general, including the pledging of, and sale of pledged securities, and from 1942 onwards on the granting by the Stock Exchange of permission to deal in securities already issued. The control was extended to the "grey market" (affecting sales of unquoted securities) from June 1944 onwards.

The complementary Governmental direction to the banks was that no essential work should be held up for lack of finance.

As would be expected, the part played by the Bank of England as regards advances was largely of a specialised nature, as their pre-war policy of withdrawing from competition with the Clearing Banks had practically removed them from the field of ordinary trading advances.

They assisted in a number of financial operations, details of which are set out below. While only the first two can perhaps properly be said to have been associated directly with the prosecution of the war, all were of importance in the furtherance of Government policy and the maintenance of financial equilibrium.

Dominion Borrowing

The Bank gave assistance in connection with the conversion of certain Australian and New Zealand sterling stocks.* In view of the fact that the control of the new issue market precluded normal underwriting H.M.Treasury themselves assumed the role of underwriters and advanced through the Vote of Credit such moneys as were necessary to repay holders who did not accept the offer of conversion. For reasons of policy the funds were advanced by the Bank of England to the Commonwealth Bank of Australia and to the Reserve Bank of New Zealand, respectively, the Bank of England being reimbursed by H.M.Treasury. The Dominion banks in turn took up on their own behalf the corresponding amount of new stock, which they deposited in the name of the Bank's nominees. The Bank of England were responsible in consultation with the two banks, for the sale of the stocks as opportunity offered, the proceeds of such sales being paid over to the Treasury in liquidation of their advance.

In the case of the conversion offer made by New Zealand in February 1944 to holders of £7 million 4½% Stock maturing on 1st March 1944,

* See also Australia, New Zealand (Part.....)

1944, there was a slight variation of the above procedure. While the Treasury underwrote the conversion, an option was reserved to the New Zealand Government to provide funds for the repayment of unconverted stock in whole or in part. Only £1$\frac{1}{4}$ million new stock was not taken up by conversion, and although the initial financing was provided by an advance from the Treasury the Reserve Bank repaid it out of its own funds within three or four days and the stock was held at their disposal.

Currency Advances*

On 3rd September 1939 the Bank of England gave notice that they would be prepared to make temporary advances to approved bankers in order to enable the latter to meet demands for currency made by their customers.

Only one bank took advantage of this offer (the Bank of Scotland) to whom a sum of £450,000 was advanced for three days from 8th September to 11th September 1939. It is interesting to contrast this with what happened in the last war, when similar advences under the Currency and Bank Notes Act 1914 amounted to £25,592,000 (repaid, with the exception of £90,000 advanced to the ill-fated Farrows Bank).

Coal Commission

The Commission was appointed under the Coal Act 1938 with the main duty of "unification of royalties" in respect of coal. The statutory price payable for the royalties was £66,450,000, due on 1st July 1942, the Commission being empowered to borrow this amount together with a further £10 million to cover expenses of administration, valuation, etc.

The Bank had originally undertaken, at the request of the Treasury, to lend the Commission up to £2 million to cover their preliminary expenses of valuation and administration, on the understanding that the advance would be repaid and that valuation payments would be met in due course out of the proceeds of periodical issues of stock. The limit was subsequently raised to £4 million revolving, and at the date of the first stock issue the amount outstanding was £3,253,000. The advance carried the guarantee of H.M.Government and consequently had the advantage of the most favourable rate (Bank Rate varying). Its amount on 3rd September 1939 was £202,000.

* See also Part I, under same heading.

Following

Following the outbreak of war valuations proceeded slowly and it was not until 1943 that the Commission were in fact in a position to make any payments. As a result of continual delays the Bank had found it necessary to point out that long-term borrowing at anything like the current favourable rates could not be guaranteed indefinitely, and these representations ultimately resulted in the Commission issuing to the National Debt Commissioners on 4th August 1943 £35 million 3% Coal Stock 1980/2016, the proceeds of which were used in repaying the Bank's advance and in making a large distribution of royalty payments on account. This permitted a further issue of £36,500,000 like Stock on 16th December 1943, again to the National Debt Commissioners, thus largely completing their essential borrowing programme. The money raised by the Stock issues amounted to £69,712,500. The Commission's estimated total needs were a maximum of £71 million.

The maximum amount of the advance outstanding during the war was £3,424,000.

Metropolitan Water Board

In the period between October 1934 and December 1940 the Metropolitan Water Board did not apply for any advances from the Bank. During 1940, however, the Board's regular inflow of revenue became disturbed through evacuation, etc., and on 2nd January 1941 they took an advance of £411,100, interest being charged at Bank Rate varying, minimum 3%: thereafter the amount advanced fluctuated considerably and for two periods (in April 1941 and March/April 1943) exceeded £1 million. On the other hand, in November 1942, several times in 1943 and again from May to August 1944, no advance was outstanding.

Towards the end of 1942 the Bank, having in mind the exceptional conditions prevailing, offered to reduce the rate of interest charged on monies borrowed in anticipation of revenue, provided the Board accepted the following conditions -

(1) that any such borrowing within the Board's financial year, which ends on 31st March, should be repaid by the following 30th June:

(2) that the Board should not borrow temporarily from other sources.

The Board

The Board accepted these conditions on 2nd December 1942, from which date the Bank charged interest on the advance outstanding at Bank Rate varying.

Chamberlain of London - Billingsgate Market Extension

To finance the extension of Billingsgate Market an advance of £200,000 was made on a Resolution to borrow dated 20th June 1939. The scheme was originally estimated to cost, over a period of about four years, from £500,000 to £750,000, but the work had to be suspended owing to the war. The advance remained outstanding throughout the war, renewed quarterly (at Bank Rate varying, minimum 3%) on the understanding that it would be repaid out of the proceeds of a Stock issue.

Electricity (Civil Defence) Fund

This Fund was formed under the Civil Defence Act 1939 for the purpose of purchasing and maintaining plant and equipment to ensure against breakdowns resulting from enemy attack. Expenditure was not intended to exceed £3 million, to be borne equally by the Government and the industry, the industry being authorised under the Act to borrow their portion. The Act placed the Fund under the control of the Central Electricity Board.

As the war progressed the amount of the authorised expenditure proved insufficient and the borrowing powers of the Fund, i.e. one half of authorised expenditure, were increased progressively to £3 million in 1941.

By 1942 the amount advanced to the Fund and outstanding was £2,085,000 and on the advice of the Bank the Board took advantage of the favourable rates then ruling to issue - by private placing - £2 million Electricity (Civil Defence) 3% Redeemable Stock 1955/60 at a price of 97½, out of which the proceeds of which a repayment of £1,945,000 was made to the Bank. The service of the Stock (not a Central Electricity Board Stock) was charged on the industry and provided by the Electricity Commissioners by means of a levy. Following the above repayment the Board continued to borrow, though ~~at~~ in much smaller amounts.

Arbuthnot

Arbuthnot Latham & Company Ltd.

The Bank of England were Arbuthnot Latham & Company's sole bankers, and in March 1937 the Company informed the Bank that they would have great difficulty in carrying out the Governor's request (to Accepting Houses) to take up 30% of their standstill bills. On examination their position appeared to be extremely illiquid, and the Governor told them that they should have what assistance was necessary but that it would be expensive. While the Company were considering the position they suddenly found that they stood to lose £164,000 on account of a fraud by the Chairman of Itas Ltd., a company (making hats) of which they were the Secretaries and to which they had given large secured credits. As a result, at the end of July 1939 they had to take an advance of £200,000 at 1% over Bank Rate varying, minimum 3%. The advance was to be reduced by £40,000 a year; the uncalled capital was to be paid up and Directors were to give their personal guarantees for sums up to £50,000 each.

On the outbreak of war Arbuthnot Latham & Company had to take advantage of the Treasury's scheme for advances to acceptors to the extent of some £225,000, but wartime reduction of their trading business enabled them to repay the Bank's advance by April 1940. Later in that year they were complaining of the onerous rate of interest on the Treasury advance and again discussed their position with the Governor. The existing credit with its letters of guarantee was then cancelled and the Bank placed at the disposal of the Company an unsecured credit of £100,000 to enable them to repay completely the "Special Advance" from H.M.Treasury. Drawings under the credit were to be allowed to fluctuate in accordance with the day-to-day requirements of the business. The credit would be subject to six months' notice of termination on the part of the Bank, with power to the Company to terminate the credit without notice. Interest was at 3% per annum. In addition, and as a sinking fund payment, the Company were to pay to the Bank at each interest date a further sum equal to the gross amount of the interest then due. On the termination of the credit the sum resulting from the accumulation of these payments would be applied pro tanto in repayment of the advance then outstanding or, if no advance were outstanding, refunded to the Company. A limit

was

was placed on the amount of their acceptances and Directors' fees, and no preference dividend was to be paid during the lifetime of the credit. During the years 1939/43 the Company frequently availed themselves of the facilities, but no advance was taken after February 1944. In January 1944 the Company purchased the business of John K. Gilliat & Company Ltd., for which transaction they received temporary finance from the Bank in the form of a secured advance of £80,000 on the usual terms. This was repaid in April.

Frederick Huth & Company

In 1922 the Königs, bankers, with the Bank's assistance amalgamated their business with that of Frederick Huth & Company. By 1931 it became apparent that having already lost heavily in the failure of the North German Wool Company the remaining capital was tied up in Germany, Austria and Hungary. They had then £3.3 million bills on the London market, of which £1¼ million were subject to Standstill agreements.

On 18th September 1935 the Governor outlined the Company's position to the Committee of Treasury and it was agreed that the Bank must assume responsibility for their liabilities. An estimated commitment of £1½ million, with a probable resultant loss of £500,000 was feared. In 1936 the active banking business was transferred to the British Overseas Bank, and a special advance was made to the partners to implement the firm's guarantee to provide the funds for the discharge of their remaining liabilities by that bank. The security for the advance was to include any surplus assets of the firm existing from time to time, and a joint and several guarantee by the four partners to provide 50% of any net loss on realisation. The advance outstanding at the outbreak of war was approximately £750,000 (including unpaid interest). In July 1941 the advance was transferred to Miscellaneous Securities under the title of "Interest in F.Huth & Company". Certain book-keeping adjustments were made at the time and it was agreed that thereafter interest should not be added to the nominal capital of the security, but a record of the interest due and unpaid was to be kept. At the end of 1944 the Account stood at £790,000, but the principal sum outstanding with interest would have been about £850,000. All the partners in the firm were by then dead:

two

two of them left practically nothing and their estates were released; the Bank gave a third a release on payment of £15,000 by the executors, and the claim against the remaining estate was still outstanding. The firm's assets were practically all "enemy debts" and a substantial loss was inevitable.

Goschens & Cunliffe

An advance of £250,000 to this firm was authorised by the Governor in 1937, to be used for discharging certain of the firm's acceptances under the Hungarian and German Standstill Agreements. In January 1941 the amount outstanding was £145,000; this was consolidated with a further advance of approximately £137,000 granted to the firm to enable them to repay the advance which had been made to them under the terms of the Bank's Notice of the 3rd September 1939 ("Special Advances to Acceptors"). At the same time the active business was transferred to Guinness Mahon & Company, the Governor's suggested alternative (the British Overseas Bank) not proving acceptable. A total consolidated credit of approximately £327,000 was granted subject to six months' notice of termination on the part of the Bank; and so long as a satisfactory rate of repayment was maintained the Bank agreed not to charge interest. By October 1941 the amount outstanding had been reduced to £284,000 and it was then decided to transfer the advance from "Special Advances" to "Miscellaneous Securities". The amount of the advance outstanding at the end of 1945 was approximately £172,600. and, though the book value had been written down to £100 in February 1942, further substantial repayments were probable.

Sterling Deposit with the Bank for International Settlements

At the outbreak of war a sum of £300,000 was on deposit with the B.I.S. £100,000 of this was at 31 days' notice and was called for the 19th October; the remaining £200,000, consisting of two separate amounts of £100,000 fixed to mature on the 15th and 30th September, respectively, was renewed until the 19th October, when the entire deposit was withdrawn.

Dollar Credit to the National Bank of Hungary

This was the Bank's participation in a credit granted by a syndicate of Central Banks in 1929. The balance outstanding was repaid in 1940.

Commercial Bills

The average holding in the first three quarters of 1939 was about £9 million, against a "target" of £10 million. By 1941 the shortage of bills in the market had reduced it to £6 million; but during the next two years the supply of bills, largely domestic bills drawn by Government contractors increased and the average recovered to around £9 million.

6. Principal Transactions in "Other Securities"

During the war the Bank divested themselves in part or entirely of various ventures undertaken in earlier years, for the most part on grounds of public policy. Cheap money produced a market favourable to the realisation of securities in general, and while some losses were to be expected, and were incurred, these tended to be smaller than they might have been some years previously, and profits, where these were secured, greater.

Bowater's Newfoundland Pulp & Paper Mills Ltd. 3½% "B" Mortgage Debenture Stock 1960/70

This issue arose out of the liquidation of one of the many interests of Armstrong Whitworth & Company Ltd., ~~viz~~. the Newfoundland Power & Paper Company Ltd. which was succeeded in turn by the International Power & Paper Company of Newfoundland Ltd. and again by Bowater's Newfoundland Pulp & Paper Mills Ltd.

The issue (September 1942) was made for the purpose of converting Newfoundland Power & Paper Company Ltd. "B" Debenture Stock, for which the Bank acted as Registrar; and the Bank were the principal underwriters (without commission) and were called upon to take up £721,900 Stock. The sale of the Stock was completed by November 1944, and showed a small loss.

Electricity (Civil Defence) 3% Redeemable Stock 1955/60

The Bank took up - and subsequently sold - £100,000 of this Stock when it was issued, privately, in September 1942 - see above under "Advances".

London Electric Transport Finance Corporation Ltd. 2½% Guaranteed Debenture Stock 1950/55

When this Stock was issued in 1935 the Bank took up a very large proportion of it to support the issue, which did not have a wide public appeal; at the outbreak of war the Bank's holding stood

at

at £4 million. In 1943 market conditions favoured sales and £500,000 was disposed of during the first quarter of the year; in May the remaining £3½ million was sold; in all a relatively trifling loss was incurred.

Railway Finance Corporation Ltd. 2½% Guaranteed Debenture Stock 1951/52

This Stock was issued in January 1936 and also failed to get much support from the public; again the Bank took up a large amount and were holding £1 million at the beginning of the war; they finally disposed of their holding in January 1943 at a profit.

New Zealand Government 3½% Conversion Stock 1939/45

This issue of £16 million Stock was made to finance the repayment of 3½% Stock maturing in 1940; and an account of the negotiations and their sequel will be found in the chapter on New Zealand. The Bank's holding was taken up partly by the Issue Department, partly by the Banking Department, and the latter's share (some £4 million) was sold at a profit.

Sudan Government 3½% Guaranteed Stock 1954/59

An issue of £2 million was made in July 1939 and the Governor gave the underwriters, Mullens & Company, an option until 30th September to sell to the Bank, at 1% discount, up to £500,000 Stock. On the outbreak of war Mullens exercised their option to the extent of £480,000. The Stock so acquired was disposed of between November 1939 and January 1940 at a small profit.

Anglo-International Bank Ltd. Ordinary Shares

1,187,386 shares of a nominal value of £1 each were held by the Bank at the outbreak of war. For some years previously the policy had been one of orderly liquidation, and on 16th July 1943 the capital of the Company was reduced and a repayment of 5s. per share made to the shareholders. The Bank of England had meanwhile acquired a further 6,754 shares, thus holding in all 1,194,140 shares of a nominal value of 15s. each. The book value of the security had been written down in 1935 to £100. In July 1944 such banking business as remained was transferred to Glyn Mills & Company, and Continental Assets Realisation Trust Ltd. were appointed to manage the Company for the purpose of realising the remaining frozen assets.

The Central

The Central Mining & Investment Corporation Ltd. 5% Cumulative Preference Shares of £1 each fully paid

In agreement with Sir P.A.Cooper, then a Director of the Central Mining & Investment Corporation Ltd., the Bank bought 300,000 preference shares in 1934 to regain for this country control of the Corporation ~~for this country~~ (and hence of this part of the South African gold mining industry's policy) which threatened to pass to France. In 1942, however, the danger of foreign control was removed by an alteration in the Articles of Association which deprived foreign holders of voting rights. On the 23rd June 1943 the Bank sold their shares, by arrangement with the Central Mining Corporation, to Rand Mines Ltd., thus keeping them in the Empire.

Liverpool Stock Exchange Buildings Company Ltd. 3% Debenture Stock 1897

In 1897 the Bank advanced to this Company £110,000, secured by Mortgage Debenture Stock for the same amount; the money was used for redeeming mortgages on the Company's property, for acquiring additional property and for enlarging the Exchange Buildings. In 1943 efforts were made to dispose of the holding and eventually this was arranged, but the proceeds did not cover ~~ing~~ the original advance.

Deposit with the British Overseas Bank

The British Overseas Bank had always been deeply engaged in Germany, Hungary and Eastern Europe. Its liquidity was therefore seriously affected by various standstill arrangements, and in December 1938 it became clear that the bank would require assistance to enable it to take its standstill bills off the market. The Governor called together the three "B" shareholders who controlled the bank and it was arranged that the bank should be given what was in effect a guarantee of £2 million, the Bank of England being responsible for £1 million and two shareholders, Williams Deacon's Bank and the Union Bank of Scotland, for £750,000 and £250,000 respectively. The third shareholder, the Prudential Insurance Company, would not participate. The arrangement took the form of a special deposit by the above-mentioned banks of the £2 million, offset to the extent that it was not required by a corresponding call loan by the British Overseas Bank. Energetic steps were taken for the realisation of all possible assets and by October 1942

The Auditors

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the Auditors were able to certify that only £750,000 of the guarantee was required. The position was, in fact, somewhat better than this and by 1944 it seemed that the special depositors might be relieved of their liability at a comparatively small loss to themselves. Thus, in June 1944, it was announced that the British Overseas Bank were transferring their banking business to Glyn Mills & Company and were entering into an agreement with Continental Assets Realisation Trust Ltd. for the liquidation of their frozen assets. This transfer was made possible by the special depositors agreeing to forgo at this time the repayment of a sum of about £300,000. So far as the Bank of England were concerned, the amount due was £137,000 but it was expected that this would be reduced in the next two years to £80,000 - £100,000.

Constantinople Quays Company

As the Bank were able to realise their holding (at a substantial loss) in 1944 it is perhaps fitting to give some account of it. The history of this investment is a curious and complicated one.

In 1906 the Foreign Office, in conjunction with a French group, took advantage of an opportunity to obtain a controlling interest im the Constantimople Quays Company, largely with a view to preventing Germany from doing so. 37,500 shares out of a total of 47,750 Ordinary and Preference shares of 500 francs each were bought at par, a price greatly in excess of their intrinsic value (about 200 francs). The Foreign Office half of this purchase was handed over to the Bank of England*, apparently because the Government either did not think it worth while to hold it or deemed it inadvisable to seek Parliamentary sanction for retaining the shares themselves. As an inducement to the Bank, the Government guaranteed them 3½% on the capital cost of the shares; and the Bank engaged not to part with the shares without the consent of the Treasury, and to exercise voting rights (both classes of shares had the same rights) in accordance with the wishes of the Treasury. The Foreign Office and the French Group each

*At a cost to the Bank of £375,808 (C.C.O.file 373/20; note 10.3.1944,O.E.N.)

each nominated three Directors (the Chairman was French) and three Bank of England Directors served in turn. The Foreign Office forwarded sums from time to time to form a Guarantee Fund for the Bank.

In 1911 the Foreign Office was urged by the Governor to take over the holding as it then stood and to inform Parliament of the transaction. This, however, was not done.

Towards the end of 1916 a fresh arrangement with the Bank was made, the Bank receiving 1% below Bank Rate varying, with a minimum of 3½%. During the war they had to draw on the Guarantee Fund as Turkey did not remit the service of the shares.

The depreciations of the French franc, in which interest and principal were paid, added a further complication, and in 1924, in view of the loss which would result, the Bank wrote the investment down from £329,800 to £100,000 and reduced their interest claim to 2½%.

Later the Turkish Government began to put every obstacle in the way of the Company, with a view to obtaining control of it themselves, and by 1934 the Company appeared to have no option but to secure the best possible terms for the sale of the business to the Turkish Government. Under the terms of an agreement which came into force on 1st January 1935, the Turkish Government agreed to take over the liability to the Debenture holders, pay the arrears on the Preference Shares and an Annuity of 2½ million francs for 40 years (with an option to compound on a 7½% basis).

Although the terms obtained were surprisingly favourable, the Bank were faced with an unavoidably heavy loss. The Treasury [redacted] were not prepared to ask Parliament for a special vote, and the Bank had to be content with £43,000 then held on the Foreign Office Guarantee Fund, and the handing over of some 2,000 further shares. Their potential loss then appeared to be about £285,000, less such amounts as might come from the liquidation of the Company. The Book Value was accordingly reduced to £100.

In April 1944, however, when they redeemed 7½% bonds of 1933 & 1934 the Turkish Government offered holders of Constantinople Quays Shares ~~the shares~~ £4:10: - per share, announcement of which was made in the Press. The offer was accepted by the

P.T.O.

Securities Management Trust

On 29th November 1929 the Bank's holdings of:-

Armstrong Whitworth "B" Ordinary Shares,

International Power and Paper Company 5% Preference Shares, and

William Beardmore & Company 7% 1st Mortgage Debentures

were transferred to the S.M.T. and a new account in "Other Securities" was raised under the title of "Securities Management Trust Limited Ordinary Shares". The Securities were transferred at the value at which they stood in the books and this became the book value of the new Security.

Subsequently there were other transactions of similar nature and various shares and holdings of Stock were purchased and placed directly at the disposal of the S.M.T. The book value at the beginning of the war, including a small amount of the S.M.T.'s own ordinary shares, was £5,057,770: 8: 5. This had been reduced by nearly one-half by the end of 1944.

Unproductive Securities

The principal component of this group is, of course, the advance made by the Bank to offset the overdraft on the Customs and Excise Receipt Account. As a result of the considerable war-time increases in Excise Duties (notably the Beer Tax), the average overdraft was correspondingly greater. Thus, whereas Unproductive Securities averaged £2 million in 1939, they averaged £4½ million in 1943.

7. Government Loans to Banks through the Bank of England

In order to ease the position caused by the abnormal expansion of Public Deposits and the shrinkage of Bankers' Deposits in the first half of August 1939 (resulting chiefly from heavy purchases of sterling by the Exchange Fund) it was decided to lend part of the idle Exchequer Funds to the Market. A total of £9 million was so lent, for varying periods, through the National Bank of Egypt and the Commonwealth Bank of Australia; all the money was finally repaid by 28th September 1939.

Interest Free Loan to H.M.T.by the Bank of England o/a Bank of Greece

Since this Loan was made through the Bank it was first questioned whether it was permissible under the Bank of England Act of 1819, the first section of which declares it to be unlawful for the Governor and Company of the Bank to advance or lend to His Majesty any sum or sums of money whatever without the express authority of Parliament.

Section 4(3) of the National Loans Act 1939, however, provided that any limitation on the powers of any body of persons to lend money to the Government (or to invest in or hold or purchase securities issued under that Act) should not have effect. This was held to authorise the Bank to lend to the Government.

Since Section I of the Act authorised the raising by the Government, in such manner as the Treasury think fit, of any money required for raising any supply granted to His Majesty for the service of the year ended 31st March 1940 and the National Loans Acts of 1940 and 1941 extended the provisions of the 1939 Act to money raised under the later Acts, it was argued (and agreed by the Treasury) that the Bank of England were entitled to lend money to the Government free of interest because such loans represented money raised under the National Loans Acts. Incidentally, this decision covered the taking up of Tax Reserve Certificates by the Bank.

8. Customers' Money Employed*

At the outbreak of war the amount of Customers' Money Employed (in Treasury Bills) was £14 million, most of which was on account of sixteen European Central Banks. By far the largest amount was £6,700,000 for the Czech National Bank: the next largest was £1,375,000 for the Reserve Bank of India. The Reichsbank-Direcktorium had £10,000. Of the total only a trifling amount was for private customers.

Up to the end of January 1940 the total rose steadily to £49 million and then, apart from a temporary rise in the latter part of May and June, fell away to £21 million in the middle of July 1940. This upward and downward movement was due almost entirely

*See also under "Treasury Bills" in Part I.

entirely to an increase and subsequent decrease on a Bank of France account, the balance of which was reduced from £28 million to nil by 11th June 1940. The rise which occurred towards the end of May and June was caused by an increase of some £15 million held for the Bank of Canada, £10½ million being repaid on 15th July 1940 for the repatriation of Canada 4% Stock 1940/60.

Over the following twelve months the total rose consistently and reached £185 million on 30th June 1941. The accounts mainly contributing were Bank of Canada (£101 million), Bank of Greece (£34 million) and Norwegian Government (£10 million).

This rapid increase had left a much smaller supply of Treasury Bills for the market. Arrangements were accordingly made whereby from 1st July 1941 "Tap" Bills, normally available only to Government Departments, were made available to the Bank of Canada, and in March 1942 the privilege was extended to the Reserve Bank of India. As a result Money Employed had been reduced by October 1941 to £83 million. By July 1943, however, it had again risen, to £113 million, by December to £148 million, and by 31st December 1945 to £197 million, when the Central Banks of the following countries had balances of £10 million or over:-

Argentina	£104.9 million
Brazil	14.7 "
Greece	11.2 "
*Greece (Non-Interest Bearing)	12.5 "
Uruguay	13.3 "

Interest Rates

Interest on sums employed continued at rates based on the average rate at which three months' Treasury Bills were sold by tender on the Friday previous to the date of employment, and

commission

*Remainder of a larger sum, £21¾ million, transferred in May 1942, at the request of the Bank of Greece, from Money Employed and lent to H.M.G. free of interest. The Bank of Greece desired that the sum so lent should remain a liability of the Bank of England and accordingly it was retained as a non-interest bearing Account, the normal cover of Treasury Bills being replaced by a Treasury Certificate acknowledging the loan, the funds for which had originally been provided by H.M.Government.

commission was charged by the Bank in accordance with the variations in the rate of interest*. From February 1940 the average rate on Treasury Bills remained practically stable at 1% with the result that the Money Employed rate for Central Banks remained virtually unchanged at 11/16%. Hence the growth in Money Employed profits - £209,000 for the half-year ended August 1944 against £22,000 for the same half-year in 1939 - directly reflected the growth in the amount employed.

9. The Cash Base

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*Interest on Customers' Money Employed based on average Tender Rate to nearest 1/8% below, less 1/4%; minimum 1/4%:

Less Commission

@ 1/16%	when	C.M.Rate		under	1/2%
@ 1/8%	"	"	"	"	2%
@ 1/4%	"	"	"		2 - 2 1/2%
@ 3/8%	"	"	"		2 5/8%
@ 1/2%	"	"	"		2 3/4% - 3 3/4%
@ 5/8%	"	"	"		3 7/8%
@ 3/4%	"	"	"		4% - 4 1/4%
@ 7/8%	"	"	"		4 3/8%
@ 1%	"	"	"		4 1/2% - 5%

Central Banks

Commission deducted at -

1/16%	when	C.M.Rate	under	2%
1/8%	"	" "		2% or over

The "Tap" Rate was fixed at the nearest multiple of 1/16% below the average weekly Tender Rate, and was effective from Monday morning to Sunday night.

9. The Cash Base

The Cash Base expanded by relatively moderate amounts in the first year or two of the war but by considerably more in 1943 and 1944. No clear idea of the extent of this expansion, however, can be obtained by consulting the figures of cash published by the London Clearing Banks. Cash holdings had been exaggerated (since they represented an average of different weekly make-up days only) for many years before the war, and during the war the exaggeration became more pronounced, for a single day was chosen by each bank, and no doubt a greater effort at making up was made once a month than when the task occurred weekly. The banks continued to make up on different days (except at the end of each half year) and as the Cash Base grew the surplus funds moving round tended to be greater. Although the cash proportion was allowed to decline slightly (from an average of 10.9 in 1939 to 10.7 in 1940 and thereafter to 10.5) the true figures were 2% or more below this figure, and with expanded cash this difference could make a distortion on make-up days of as much as £100 million or more. Using the clearing banks' published figures* we find that the Cash Base increased from an average of £244 million in 1939 to £492 million in 1945, or more than doubled.

Approximately true figures of the expansion are arrived at by taking the difference in the Bankers' Deposits at the Bank of England (averages of the Wednesday figures) and adding thereto an average of the Wednesday Till money from figures supplied to the Bank of England by the bankers. Average Bankers' Deposits increased from £102.5 million in 1939 to £217.9 million in 1945, considerably more than twice the 1939 figure. The corresponding increase for Tills was £20 million, and in total cash £135 million, or about 55% of the published increase.

The annual

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*As only end of half-year figures were available for June and December, the yearly averages compiled by the Bank (Statistical Summary) additionally exaggerate the growth.

The annual growth in the deposits at the Bank of England was:-

	£ million	
1939	102.5	
1940	110.3	+ 7.8
1941	122.6	+ 12.3
1942	136.9	+ 14.3
1943	158.9	+ 22.0
1944	184.4	+ 25.5
1945	217.9	+ 33.5

The movements at the Bank of England over the six years accounting for the total increase of £115 million, again averaging Wednesday figures, were as follows:-

£ million

Increases		Decreases	
Public Accounts	8.5	Other Accounts	17.1
Government Securities	144.8	Other Securities	7.7
Discounts & Advances	.7	Reserve	13.9
	154.0		38.7

The Bank's Government Securities averaged £107 million in 1939, and £252 million in 1945; of this increase £130 million was ~~represented by~~ in Treasury Bills. The Wednesday average holdings of Treasury Bills (other than Discounts) were:-

	£ million
1939	62.1
1940	95.7
1941	92.6
1942	97.2
1943	116.4
1944	150.4
1945	191.9

Thus the greater part of the expansion in the Cash Base was supplied by the purchase of Treasury Bills. Treasury Bills were

10. Contingent Liabilities

This is perhaps an appropriate place in which to include a note on Contingent Liabilities.

were also used for day-to-day adjustments of Cash, although the larger weekly variations were effected by varying the amount of Treasury Deposit Receipts called from and offered to the banks.

At the end of each half-year the banks all made up on the same day, and no surplus cash was available to be moved from bank to bank. The whole of the additional cash was therefore provided by the Bank of England. The greater part of their assistance took the form of Treasury Bill purchases, though Ways and Means Advances were also large. Except at the end of 1939 the Bank never supplied the Market with less than £60 or £70 million, while at the end of 1942 and 1943 £123 and £147 million were made available: in 1944 the figures were still higher: £131 million in June and £179 million in December. In 1945 the amount of additional Cash provided by the Bank was the highest so far reached in June (£175 million); but in December only £146 million. Once, in June 1940, the Bank had to cover a substantial drain from the Public Deposits, while on two occasions the Public Deposits contributed to the building up of the Bankers' Deposits. These figures are calculated by assuming that the preparation for the half-yearly make-up began a fortnight before the end of each half-year, and a statement is appended showing the movements in these periods.

The hold of the Bank and the Treasury on the Market naturally enabled both small and large movements to be effected without difficulty and with the desired results. The Bank tried not to make money too easy and yet to avoid inconvenience to the Money Market. Occasionally the banks, end especially the smaller banks, felt themselves squeezed; while on other occasions it was sometimes alleged in the financial Press that the Bank had provided cash beyond the Market's requirements. On the whole, however, the system worked smoothly, efficiently and without complaints.

10. Contingent Liabilities

This is perhaps an appropriate place in which to include a note on Contingent Liabilities.

Deposits

Deposits

From time to time during the war the Bank agreed to accept and hold U.S.and Canadian dollars for certain governments and Central Banks. The first instance came in May 1940 when an account was opened for the Norwegian Government in connection with their Shipping & Trade Mission. The question arose as to where the dollars should be held and the Treasury agreed that the deposit should be for account of the Exchange Fund.

Subsequently dollar accounts were opened for the Netherlands Government (1940), the French Caisse Centrale and the State Bank of the U.S.S.R. (both in 1942), the National Bank of Yugoslavia and the Reserve Bank of India (1943).

The precedent set in 1940 was followed without reference to the Treasury in the remaining cases. In August 1944, however, the Bank came to the conclusion that these balances should not be a liability of the Exchange Equalisation Account but of the Bank of England. At this time the total amount of dollars so held was a little under U.S.$3 million with a further Can.$30,000 odd. All but about $300,000 was held for the Norwegian Government. The French account had been closed.

With Treasury agreement the Governors decided that these balances should be included among the Bank of England's own assets and liabilities. It was thought justifiable, however, in all the circumstances, not to allow these figures to affect the Bank Return; the entries were accordingly netted or offset.* These changes were made as from 5th October 1944.

Forward exchange contracts with customers were included among the contingent liabilities noted in the half-yearly balance sheets of the Bank as from April 1942.

Credits

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*For simplicity's sake it was felt that the dollar balences should be held with one bank: and as it had already been agreed that all dollar balances with the Federal Reserve Bank were the property of H.M.Government, a London bank, the Westminster, was selected.

Credits

Ref.F.E.61

Credits had also been opened for Government departments (e.g., Ministries of Supply, Food and War Transport) and some other customers - credits both confirmed and unconfirmed, some expressed in sterling and some in foreign currencies.

The question was raised in March 1942 whether such credits should not properly appear in the Bank of England Balance Sheet. Unconfirmed credits, it was decided, could be ignored; and if the credits were in foreign currencies their cover necessarily would be the responsibility of the Exchange Fund, since the Bank of England held no foreign exchange. (Their amount at the end of February 1941 was some £7 million, of which £6¾ million was for Government Departments). But there was clearly a contingent liability on the Bank of England in respect of confirmed sterling credits.

In April 1942, in agreement with Messrs.Deloittes, it was decided to include confirmed credits among the contingent liabilities noted on the half-yearly Balance Sheets of the Bank.

In August 1942 their amount was £3.2 million. By February 1946* it had grown to £12.3million, of which the greater part was for the Ministry of Supply.

Ref.F.E.321

Payments Agreements

In view of the commitments made under the various Payments Agreements the Governor wrote to the Treasury at the end of 1940 to suggest that, in view of the slender resources held by this country, arrangements should at least be made to keep enough gold to meet commitments on the various Special Account agreements, which then stood at about £10 million. The Treasury agreed in principle and accepted the liability on 23rd May 1941. There was some discussion as to whether this liability should be shown in the accounts of the Exchange Equalisation Account, the Treasury demurring on the ground that the Exchange Fund was a cash account,

* Credits in foreign currency are valued half-yearly.

which should

which should therefore not record a contingent liability. The Bank argued that the liability was an actual rather than a contingent one, admitting that they had themselves first used the word "contingent". They now suggested that the Fund should sell gold forward to the Bank of England at the end of each month.

Correspondence continued up to October when the subject was dropped, the Lend/Lease Act and the consequent increase in the U.K.'s gold reserves making the question of no practical importance.

General

The following Minute of the Committee of Treasury dated 3rd March 1941 ~~may~~ no doubt refers to some of the above commitments:-

> "From time to time the Bank had undertaken on behalf of H.M.Government commitments in gold or currency to Foreign Governments and Central Banks and the public, to which no reference was made in the Bank's Accounts. The Committee agreed that as, in these transactions, the Bank were acting as agents for H.M.Government it was not necessary for their commitments to appear as liabilities of the Bank: or to be covered by corresponding assets or to be disclosed to the Committee."

Public Accounts

Public Accounts

On the 12th October 1942 the Governor wrote to Sir Wilfrid Eady with reference to the average level of Public Accounts, which it was agreed in 1925 should not, as a general working rule, be allowed to fall below £10 million -

"....... I noticed yesterday that the public deposits stood at £6 million and have also observed that the figure has fallen to a low figure on many occasions during the past year or so. And, although it is not my wish that any action should be taken to work to rule during the war period, I think it proper to place on record that this attitude should not be regarded as an admission by the Bank that the previous arrangements no longer hold good in principle."

Sir Wilfrid Eady replied (30.10.42) -

"....... Thank you for your letter of the 9th October about the size of the total balances of Public Accounts. We were glad to be informed that it is not your wish to work to rule during the war period, but we also note what you say about the Bank's general views on the principle of the matter."

TABLE SHOWING THE RELATIVE EFFECT ON BANKERS DEPOSITS AT THE BANK OF ENGLAND (HEAD OFFICE) OF CHANGES IN VARIOUS ASSETS AND LIABILITIES DURING THE LAST FORTNIGHT OF EACH HALF-YEAR FROM THE OUTBREAK OF WAR TO DECEMBER 1945

Changes over Two Weeks

£ millions

Last fortnight of:-	1939	1940		1941		1942		1943		1944		1945	
	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.
Bankers Deposits (H.O.)	43	26	51	74	95	93	106	79	128	130	168	148	155
Ways and Means	-	-	39	28	49	36	28	43	18	20	47	7	9
Treasury Bills	34	69	20	32	55	39	88	27	125	100	118	159	138
Other Securities	1	7	4	9	7	6	7	11	4	11	14	9	1
Reserve	-	22	4	2	12	5	11	3	13	-	5	14	3
"Other Private" Deposits	6	1	2	2	4	2	1	3	8	3	8	11	1
Public Deposits	16	27	6	9	-	19	5	2	2	2	2	2	13
	43	26	51	74	95	93	106	79	128	130	168	148	155

Changes effecting an increase in Bankers Deposits - in black.

" " a decrease " " " - in red.

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