Freezing Regulations In The U.S.A.

Although the policy of freezing was initiated by the U.S.A. while still at peace, the objectives as they emerged were seen to be closely akin to those of the U.K.Trading With the Enemy Act. The basic authority for the measures was the U.S.Trading With the Enemy Act of 1917, an Act which, with amendments, once again became fully operative after the U.S. ~~was~~ were at war, and the machinery of its administration was to a large extent merged with the machinery set up for the administration of the freezing regulations.

Freezing blocked the balances of countries conquered by the enemy* and countries adjacent to enemy territory, nationals of such countries in the widest sense and persons who had dealings with such countries. But an American was not prevented in any way from paying dollars to any foreign country not subject to these Orders, such as the U.K. There was no need to impose Exchange Control as such. The U.S.A.had ample gold reserves to meet any withdrawal of capital which could be foreseen: she had a continuously favourable balance of trade until the enormous growth in the shipment of war supplies, and there was little attraction in moving capital to any other centre.

The policy of "freezing" the assets in the United States of specified foreign countries and their "nationals" was initiated by an Executive Order (No.8389) of April 10, 1940, relating to Norway and Denmark. A list of countries covered by this and subsequent amendments is as follows -

	Effective date
Norway and Denmark (excluding Iceland)	April 8, 1940
Netherlands, Belgium and Luxemburg	May 10, 1940
France (including Monaco)	June 17, 1940
Latvia, Estonia and Lithuania	July 10, 1940
Rumania	Oct. 9, 1940
Bulgaria	March 4, 1941
Hungary	March 13, 1941
Jugoslavia	March 24, 1941
Greece	April 28, 1941

* At that stage "belligerent" only, of course, from the standpoint of the U.S.A.

Finally

Finally, on June 14, 1941, a new and somewhat revised Executive Order (No.8785 replacing No.8389) extended the list of affected countries to the whole of Continental Europe excluding Turkey. (Russia was included but was subsequently named by the Secretary of the Treasury a "generally licensed country", i.e.one having the same status as a country not named in the Order.) In the case of each blocked country the Order covered not only the mother country in Europe but also its colonial possessions, mandated territories, etc.

China, Japan, ~~Thailand~~ Siam and Hong Kong were added later, but June 14, 1941 was made the effective date in each case. The definition of "foreign country" was broadened on December 26, 1941, so that thereafter any territory occupied by the enemy automatically became frozen.

These Orders and the regulations made thereunder were issued under the authority of the Trading With the Enemy Act of 1917, which as amended authorised the President in time of national emergency to prohibit except under licence certain classes of transactions by any person subject to the jurisdiction of the United States. These classes of transactions were described in the Act as follows -

1. Any transactions in foreign exchange.
2. Transfers of credit between or payments by or to banking institutions as defined by the President.
3. Export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency.
4. Any transfer, withdrawal, or exportation of or dealing in any evidences of indebtedness or evidences of ownership of property in which any foreign state or a national or political sub-division thereof, as defined by the President, has any interest.

Executive Order No.8785 defined the classes of prohibited transactions somewhat more fully, but it invoked the authority of the Act only with respect to transactions of these sorts which were "by, or on behalf of, or pursuant to the direction of"..... any country named in the Order or any "national" thereof, or which involved

"property

"property in which ..... any interest of any nature whatsoever, direct or indirect"..... had been held by any such country or any "national" thereof on or since dates specified for each country. All such transactions were prohibited subject to authorisation by the Secretary of the Treasury.

"Nationals" of a blocked country included any persons - regardless of citizenship - who were domiciled or resident there at any time since the specified date for that country; any subjects or citizens of that country, wherever domiciled or resident; any partnerships, corporations, etc., operating principally in such country or in which a substantial interest was held by "nationals" of that country; any person acting on behalf of a "national" of that country; and finally, any person whatsoever who the Secretary of the Treasury determined was or would be deemed to be a national of that country. The Secretary of the Treasury later named as "generally licensed nationals" - i.e.persons having the same status as persons not originally covered by the Order - any individual residing in the United States on 23rd February 1942, or any firm which was blocked solely on account of the interest of such an individual, and certain designated foreign banks and New York agencies of foreign banks.

The term "banking institution", as used in the Order, covered not only banks, brokers, etc., but any business enterprise which granted credit as an incidental part of its operations.

Administration of Licences

The Secretary of the U.S.Treasury was authorised by the Order to issue regulations and licences thereunder. The Treasury also solicited the assistance of the Federal Reserve Banks as fiscal agents in the administration of the licencing system under the Order.

Transactions forbidden by the Order could be licensed under general or specific licences. General licences were publicly issued by the Treasury. Some of them exempted from the Order certain classes of transactions, either entirely or within specified limits relating to the amounts involved. Or they might be used to designate generally licensed countries or nationals, or to effect

certain

certain relaxations in the provisions of the Order with respect to favoured countries. Or, finally, they could make interim provisions to soften the first impact of the Orders.

Specific licences were granted by the Treasury or the Federal Reserve Banks in response to particular licence applications. Such applications were received by the Federal Reserve Banks in the first instance.

Specific licences could relate ~~under~~ to a single payment, security transfer, etc., or they could relate to a series of inter-related transactions. In the case of so-called "blanket" licences, they could cover for a stipulated period all the normal operations of a foreign-controlled bank or business firm in this country. However, transactions engaged in under the terms of blanket licences - and of most of the published general licences - had to be reported periodically to the Federal Reserve Banks.

Objectives of Control

Executive Order No.8389, with its series of amendments, applied only to countries which came under German or Russian occupation or domination beginning in April 1940. It aimed in the first instance at two ends:

(a) Resolving the difficulties of American banks and other custodians of property owned by the occupied countries which were confronted with conflicting claims to the property and which incurred legal risks in acting upon - or failing to act upon - instructions which might well have been given under duress; and

(b) protecting the legitimate interests of the occupied countries and their nationals by asserting a sort of trusteeship over their assets in this country.

Two further objectives were visualised from the outset, of which the first was ultimately fully recognised but the second remained more or less undefined. These were:

(c) Preventing the Axis powers from acquiring and utilising assets in the U.S.A.; and

(d) gaining a position which would eventually prove useful for bargaining purposes with European countries, and which would even provide a means - through offsetting arrangements - of redeeming American claims on European countries.

When

When the first freezing order was issued, in the Spring of 1940, its significance as a measure of economic warfare against the Axis was not fully appreciated, or at least was not publicly acknowledged. In the following months, as more and more German-occupied countries were made the subjects of freezing orders, this aspect of the matter became more prominent. Attention was drawn in public discussion to the inconsistency in trying to prevent Germany from utilising the dollar assets of conquered countries, while still permitting her free control over her own funds in the U.S.A. The Order of June 14, 1941 answered this criticism, and the proclamation which accompanied it clearly stated that one of the objectives was "to prevent the use of the financial facilities of the United States in ways harmful to national defence and other American interests".

The final objective, safeguarding American claims on European countries, was acknowledged in public statements by the Secretary of the Treasury, but necessarily could take definite shape only in a post-war settlement.

Following the entry of the United States into the war their Trading With the Enemy Act became fully operative, and there was no need to establish fresh machinery. All that was required was a General Ruling to the effect that no transaction involving an enemy, as distinct from a national of a blocked country, could be licensed without specific reference to the Trading With the Enemy Act as well as the Freezing Regulations. An Alien Property Custodian was appointed, but by agreement he confined his activities largely to dealing with enemy businesses operating in the U.S.A. Transactions in gold, dollars and securities continued to be regulated by the Treasury.

Some of the More Important Aspects

Spain, Portugal, Sweden and Switzerland

These countries were blocked under the Orders but were allowed to operate under General Licences which provided, broadly speaking, that only those transactions were allowed which were effected by or on behalf of the Government or the Central Bank, or were guaranteed by some specified authority not to be indirectly on behalf of some other blocked country. The object was to prevent, so far as possible, the use of neutral names as cloaks for

transactions

transactions by enemy countries.

Nationals of blocked countries resident outside such countries

Although freezing applied to all such persons, in practice it was considerably modified by means of General Licences. For example, one General Licence (23rd Feb.1942) freed all such persons resident in the U.S.A. Another permitted trade transactions even though they involved a blocked national, provided they were between countries in what was termed the general licensed trade area, which included North and South America, Russia and the whole of the Sterling Area.

Control of imported notes and securities

Under general rulings all currency notes and securities imported into the U.S.A., other than from the U.K., Canada, Newfoundland and Bermuda, were held blocked until the Treasury authorised their release. Travellers to the U.S.could, however, take in up to $50 free of this restriction. The restrictions were eased for U.S.troops and for special (occupation) U.S.currency.

The Proclaimed List and ad hoc freezing

A list was published of persons who were not nationals of blocked countries within the meaning of the Regulations, but who upon being placed upon this list were treated in every way as if they were. There were some further borderline cases which were dealt with under the process known as "ad hoc freezing" (Nov.1942), which avoided the publicity attached to the Proclaimed List but otherwise probably had much the same effect.

Census of Foreign-owned Property

As an aid to administration, the U.S.Treasury compiled, in the most detailed form, a complete census of all foreign-owned property in the U.S.A.

Co-operation by friendly countries

Dollars could be held by blocked nationals through banks in friendly countries, and in order that such dollars should not escape control these countries agreed to co-operate in varying degrees with the U.S.A.in enforcing parallel restrictions on dollar balances so held. Restrictions were imposed on dollar balances

held

held by non-residents throughout the Sterling Area with this objective in view. This is referred to in more detail below.

Trade with Latin America was not seriously affected before the Order of June 14, 1941, but this Order brought within the scope of the freezing regulations the considerable proportion of this traffic in which the Latin-American importers and exporters were citizens of, or firms controlled by, Germany, Italy, Spain, and Portugal. The economic warfare aspect of the control was again evident in this connection. The Order offered an opportunity to reinforce the efforts of the Export Control Administration and the State Department to oust Axis traders in Latin-America. The Export Control had jurisdiction only over exports - not imports - of certain categories of goods, while the State Department relied upon appeals to American firms to sever voluntarily their relations with Axis interests. The Foreign Funds Control, on the other hand, could enforce its authority to eliminate all trade with such interests.

The problem of enforcement was obviously very difficult. Direct and indirect Axis interests in Latin-America had to be ferreted out, and steps had to be taken to acquaint all American foreign traders with the identity of such interests. At the same time, relief had to be extended to other Latin-American traders who, although blocked nationals by the letter of the Order, were innocent of subversive activity and were in fact promoting inter-American trade.

Some administrative problems

The task of maintaining in a frozen state European assets in the U.S.A.was simplified by the sympathetic attitude of the occupied countries, and by the fact that in any case normal trade and financial relationships with Continental Europe had been suspended after the Spring of 1940. The principal administrative problems arose in connection with remittances to the blocked countries, the requirements of alien refugees in the U.S.A.who were "blocked nationals", security transactions and foreign trade transactions.

Remittances to the blocked countries by any person in the United States were considered to fall under the Order, since the recipient was a blocked national and had an interest in the transaction. Personal remittances, however, constituted the livelihood of many

residents

residents of European countries, and general licences were issued authorising limited remittances to blocked countries, with somewhat more liberal terms if the recipients were American citizens.

One general licence permitted securities in blocked accounts to be sold in bona fide transactions on a national securities exchange if the proceeds were deposited in the same blocked account. A shift of assets from cash into securities was not permitted, however, if it appeared that it might provide a means for bringing American enterprises under foreign control.

The outstanding problem in this field [redacted] was to prevent Germany from realising on American securities looted in the occupied countries. Of course, securities looted by the Germans could be sold legally in the U.S.A.only under licence, but the task was to prevent their being imported and sold without disclosure of their origin. With this in view, special procedures were established for dealing in all securities, whatever the apparent ownership, which were registered in the names of residents of the blocked countries or which bore tax stamps, notarial seals, or other markings indicating that they had once been in such countries. To supplement these procedures, a further machinery was established whereby all securities imported into the U.S.A. (except those from certain British countries) had to be deposited with the Federal Reserve Banks until they were cleared of suspicion. Finally, it was found desirable to forbid persons in the United States to acquire securities physically situated abroad, since such transactions would obviate the importation and examination of the securities.

Import and export transactions to which a blocked national was a party fell under the Order not only because of the payments in connection therewith but also because they involved the handling in the United States of "evidences of ownership of property" - i.e.drafts, bills of lading, etc. - in which blocked nationals had an interest. The volume of trade transactions with Continental Europe itself was very limited, of course; the principal impact of the Order in this field was upon trade with the Empires of the frozen countries, and with citizens of, or firms controlled by, the blocked countries who were resident in Latin America.

The Order

The Order of 14th June 1941 (extension to the whole of Continental Europe) followed a declaration by the President of the U.S.A.of a state of "unlimited" national emergency on 27th May.*

This step changed the emphasis of freezing control from a defensive weapon primarily intended to protect the property of invaded countries to a frankly aggressive weapon against the Axis. The enemy's assets in the U.S.A.were said to amount to about $7,000 million.

The U.S.Treasury at once asked for U.K.co-operation in supplying them with information about enemy "cloaks", not only in neutral European countries but also in the U.S.A. As a first step we gave them our Black List.

As the U.K.and Eire were exempted from the freezing, it was important that the U.K.Control should prevent, if possible, any transfer of funds held by British banks in the U.S.A.for account of nationals of the newly-frozen countries. Consequently on 16th June the banks here were informed that no U.S.dollar funds or securities held for persons not resident in the Sterling Area should be released without the prior permission of the Bank of England.

At first the U.S.Treasury thought it unfair to ask the British authorities to take responsibility for permitting or refusing transactions. British banks should give their American agents full details and leave it to them to obtain a licence if necessary. The Bank of England objected to this proposal, pointing out that the U.K. Control had full powers throughout the Sterling Area to require disclosure of information: bankers could therefore give the Bank of England full particulars without fear of being sued for disclosing the secrets of their customers. In addition, the Bank had other

sources

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*The declaration was made because "a succession of events makes it plain that the objectives of the Axis belligerents ..... are not confined to those avowed at the commencement, but include overthrow throughout the world of existing democratic order, and a world-wide domination of peoples and economies....."

sources of information and possessed the machinery of control. They considered that the alternative arrangement would not relieve them of any work.

The final arrangements were not concluded until 20th August, when the Governor cabled to the Dominions (except Canada, who presumably had taken independent action), the Colonies, and the Central Banks of other Sterling Area countries. In the interval, however, substantially the practice indicated below had been followed.* The powers of the Bank of England, under the Defence (Finance) Regulations, were used to control:

(i) Withdrawals from U.S.dollar balances held by residents of the U.K.on behalf of residents outside the Sterling Area.

(ii) The carrying out of any instructions regarding U.S.dollar securities on behalf of residents outside the Sterling Area.

(iii) The carrying out of any instructions regarding gold or securities held in the U.S.A.on behalf of residents outside the Sterling Area.

All transactions, whether or not permissible under the U.S.Freezing Orders, were first examined in the light of Trading With the Enemy and Exchange Control legislation. If there were no objections on these or other grounds the Bank of England acted as follows:-

(a) They permitted operations on the accounts of residents of non-frozen countries (including those which had been granted on unrestricted General Licence) provided there was no reason to suppose that the transaction involved the Government or a national (including resident) of a blocked country or concerned property in which such Government or national had an interest. If they did so, applications were dealt with as under (b) or (c).

(b) They instructed applicants on behalf of customers who were nationals of frozen countries (or residents therein) which had been granted a limited general licence by the U.S. authorities

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*At any rate from end July. See M.E.W.cablegram to Washington 25th July.

authorities to refer their customers to the person or institution operating that licence. On learning that the transaction had been sanctioned by this authority, the Bank approved. (Owing to the unco-operative attitude of the Banque Nationale Suisse, transactions on behalf of Swiss nationals were referred after October 1941 to the U.S.A. The Swiss authorities objected to the accumulation of dollars and were not anxious to know details of American trade: if they did not know they could not tell the Germans, who were always trying to obtain information.)

(c) They instructed applicants on behalf of nationals of frozen countries (or residents therein) without a limited General Licence to refer the transaction to their correspondents in the ~~United States of America~~ U.S.A., if their customer agreed. If the customer did not agree the transaction was not permitted.

At a later date it was decided, as an exception to (b), to approve without reference trade transactions between Portugal, Spain, Sweden and Switzerland and the U.S.A.covered by a General Authorisation (No.59), which provided that Federal Reserve Banks could issue licences promptly in all cases where a transaction involved neither a name on the Proclaimed List nor a debit to the account of a national of some blocked country other than that to which the goods were consigned.

In order to simplify administration it was also agreed with the U.S.authorities that the Bank should approve without question:-

(a) Any cases where the account was being transferred to the control of a bank in the U.S.A.

(b) Any transfers under $500 which appeared to be free from suspicion.

The Americans were originally provided monthly with schedules giving particulars of all items dealt with without prior reference; by agreement this practice was discontinued early in January 1942.

The application of the freezing orders and the licences issued under them, with the numerous amendments which followed, caused

caused the Bank much work in settling the many queries raised by particular transactions; but correspondence from this side was undertaken mainly by the Ministry of Economic Warfare through the ~~American~~ British Embassy in Washington. Occasionally the M.E.W. consulted the Bank, but important points of principle in which the Bank were particularly concerned occurred on a few occasions only.

One of these concerned the Argentine. From time to time there were proposals by the Americans to freeze Argentine assets in the U.S.A., either generally or in selected cases, and this led to strong protests by the Bank.

A more general question arose in October 1941 and December 1942. In October 1941 British banks were being asked by their U.S. correspondents to disclose details in any case where assets held by them with their correspondents in the U.S. were for the account of blocked nationals. This question came up in connection with the census of foreign assets in the U.S.A. but had special force because if a British bank disclosed the assets in question they immediately became blocked. The Bank of England were most unwilling to concede the principle that British banks should make this disclosure, and contended that all assets standing in British names should be treated for census purposes as British. At the time our Embassy in Washington succeeded in getting the American Treasury to agree on this point; but it was raised again at the end of 1942, when considerable difficulty was experienced in explaining to the British Embassy, for transmission if necessary to the Americans, the exact reasons for the British point of view. The best account of the Bank's attitude is contained in a letter from Mr. Bolton to M.E.W. on 8th March 1943:

"Thank you for your letter of February 26th with enclosure regarding the disclosure of customers' accounts held by British banks in the U.S.A. to the American Authorities. I would first point out that it is only as a result of wartime legislation that H.M.G. is in the possession of information regarding the relations between bank and customer. The necessity for this is fully understood

understood by all parties concerned, but I doubt whether this gives H.M.G.the right to disclose such information to third parties, such as interested foreign Governments. If, however, a disclosure is made, the wartime legislation does not give banks any protection against a legal process for damages that might, in certain circumstances, be commenced by a customer. There is, however, a wider aspect of this problem; the relation between banker and customer is of an entirely confidential nature and one of the great strengths of the British banking system is that this relationship has become a code of behaviour which is rarely, if ever, transgressed. I feel convinced that if it becomes generally known that this code is being broken by the Government for purposes only tenuously associated with the war effort, great damage would be done to public confidence in the banks as a whole.

It is possible, however, that our American friends might say that they required these details not because they might be interested in the third parties individually, but because it would help to satisfy their insatiable appetite for statistics. I doubt whether this would be a good excuse but, nevertheless, if we were to give way I believe that our position would be seriously weakened in relation to other countries. We had a number of experiences before 1939 of European monetary authorities anxiously seeking information regarding their residents' sterling assets. We were then in the happy position of being able to say that in no circumstances would we have disclosed such information even if we had it. Fortunately, in those days our information was of a very scanty and unreliable nature, but one can foresee obvious difficulties if H.M.G.were exposed to requests from foreign Governments to provide information about the assets of their nationals and/or residents in the U.K. Once you put a foot on this very slippery slope I believe you will find it extremely difficult to draw back, particularly under any form of political pressure.

We feel so strongly on this subject that we are embarrassed by Washington's friendly efforts to strengthen our Exchange Control by sending us details of American assets held by residents of the

Sterling

Sterling Area. It is a tribute to the law-abiding instincts of the public and, perhaps, to some extent to the efficiency of the Exchange Control, that examination of the lists so far received has produced no results. Even if we were able to produce a case, it is doubtful whether we could act on this information as we foresee the possibility of strenuous objections coming from the American banks who originally gave the information to the U.S. Treasury.

There is, perhaps, another case to be made from the point of view of the possibility of loss of business if there were a general exchange of information about banking assets, but I would not wish to drag into this subject arguments based upon the more petty profit and loss aspects. I feel less unhappy about passing on information about individual accounts at the direct request of the U.S.Authorities, where they have good particular reasons for asking, but I would like it agreed that there should be no request for information except on security grounds....."

The British Embassy were not convinced. Mr.Stopford, the official who had dealt with freezing matters from the beginning, wrote (unofficially) on 9th April:

"..... I was a little shocked at Bolton's line of argument. I find it very difficult to believe that the passing of information regarding banking accounts by H.M.G.to the Government of our greatest Ally for the purpose of assisting us to win the war would seriously shake confidence in England or in neutral countries in our banking system. A great deal of water has gone over the dam since the days before 1939, and surely we are going to face in the future an entirely different situation. Our banking reputation, like everything else, is likely, to my mind, to depend more, first, on our winning the war, and second, on our showing that we can be tough when the need arises, than by being too squeamish over our clients' interests.

It would, of course, be quite fatal to use with the United States Treasury the arguments put forward in Bolton's letter, and especially to make any reference to the possibility of loss of business, as the recurring criticism which we have to face here is that when it comes to the point, we are not prepared to sacrifice our

our business interests to winning the war....."

And again on 29th April:

"..... I agree that the problem which I am posing is not an exchange control problem, nor indeed a trading with the enemy problem. The problem is an M.E.W.one. It is, I think, admitted that there are certain cases where banks, which are not enemies by definition, are acting largely as agents for the enemy. The answer which the Treasury and T.W.E.give is that we should put such banks on the Statutory List in all cases, but it was part of my definition that we were dealing with cases where for political reasons we could not use the Statutory List weapon. What I was trying to get at was to see whether there was any lesser weapon which we could use, as it really seems to me intolerable from an M.E.W.point of view that we should have to admit that we could do nothing effective in such cases to express our disapproval. Now, the Statutory List is a public and published notice to the world that we regard a particular person or firm as an enemy and that we require any person who values our good will to desist from any relations with that person or firm. The device of ad hoc freezing has an entirely different basis. It does not declare that the firm is an enemy nor does it make any demands on our friends. It merely says that, since a particular firm is giving considerable comfort to the King's enemies, we see no reason why it should enjoy facilities in the United Kingdom. If the firm has to tell its customers that it cannot do business for them in the U.K.and so give a certain publicity, that is just too bad. But we do not damage its reputation by telling its customers that we have taken action against it. Similarly, the question whether the bank can or cannot use its sterling funds directly to help the enemy is irrelevant from my point of view. We are merely saying that, until it behaves itself, we will not give it any advantages in the United Kingdom. I find it difficult to believe that any neutral government would take serious retaliatory action on behalf of one of its banks against such a common sense measure of defence on our part.

The question of powers is not one which I am competent to discuss. I do not even know whether the power to freeze ad hoc could

could be claimed under existing legislation or whether parliamentary sanction would be necessary; but I do find it difficult to believe that Parliament would refuse its sanction to any reasonable measure directed towards the damaging of the enemy's activities in neutral countries."

With the views expressed in the former letter one of the representatives of the Treasury in Washington appeared to agree. At this point the controversy dropped and the American Treasury do not seem to have raised the question again. But it is of interest to recall that the Bank of England's views on the confidential nature of the relationship between banker and customer were maintained by them in the war of 1914-18 against even their own Government.

There was one other point which the Control took up from time to time, but without any result.

General Ruling (No.5) under the U.S.Freezing Regulations required that any securities, and also since 19th May 1942 U.S.and foreign currency, imported into the U.S.A. must be delivered to a Federal Reserve Bank. In effect amounts so imported remained credited to blocked accounts unless satisfactory evidence was produced that no "blocked interest" was involved. Exceptions were made for imports from Great Britain, Canada, Newfoundland and Bermuda only. In practice only currency in excess of $250 was treated in this way.

Throughout the Sterling Area there was a satisfactory export control on securities and on this basis the Control made representations to Washington, through M.E.W., for the extension of the exceptions to the rest of the British Empire (in particular to Northern Ireland, in the light of complaints received). The reply was that (a) the U.S.Treasury made no distinction between the four countries named above and the rest of the Empire and that (b) they were not aware of practical difficulties and therefore preferred to make no alteration.

It appears, however, that the British Embassy some time before had asked the U.S.Treasury whether an amendment of their General Ruling to exempt other British territories was a delicate

subject

subject. The U.S.Treasury had said that they would rather the British Government did not press the matter as it would be likely to draw criticism to their favoured position "particularly as no practical inconvenience, except in censorship, appeared to arise".*

From 19th May 1942 the position became complicated because no satisfactory control of the import of U.S.dollar notes existed in the Sterling Area. Moreover, to control notes within a limit of $250 would have given rise to complications, since in some cases $250 would be quite insufficient for travellers' needs, an argument which was reinforced when the U.S.limit was subsequently reduced to $50. It was held that no import control which we might establish could be fully effective unless and until the Americans established an export control, which they were apparently unwilling to do. We also felt that the practical inconvenience of such a policy, in view of the large numbers of U.S.forces in the Sterling Area, would outweigh any advantages.

Considerable practical difficulties arose over the encashment of dollar notes by certain Sterling Area territories, but they were settled without any modification of the general position referred to above. The U.S.authorities were also concerned as to the possibility of evasion of their control through the U.K.but statistics showed that this was on a very small scale.

In November 1944 a controversy arose which, on a matter of principle (the right of control over sterling income), the Bank pursued with some tenacity until a solution was found a full year later. The Bank submitted, through the Treasury, three cases in which they felt that they could not accept the restrictions which a rigid

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*Viscount Halifax 6.7.1942.

rigid interpretation of General Ruling No.16 of the U.S.Freezing Orders would impose. That Ruling prohibited access to safe deposit boxes except under authorisation; and it seemed very doubtful in these instances whether the required licences would be given.

In one case sterling securities had been deposited by U.K.banks (two of them the London offices of U.S.banks) with banks in New York. The owners were one Swiss and two Portuguese nationals; and it was necessary to send the bonds or certificates to London. In Case A they were British Government securities, held on Swiss account, the coupons on which were exhausted. Case B was concerned with Brazilian bonds held for the Portuguese customer of a London bank, and on which the holder wished to give his assent to Plan "B" of the Brazilian Government's repayment scheme, delivery of the assented documents in London being required by 31st December. In Case C the New York bank held securities for a Portuguese - a naturalised British subject, who had complicated matters by electing to remain indefinitely in Portugal (on grounds of ill health), since under U.S.Freezing Orders he was regarded as a Portuguese national while under U.K.Regulations he was a U.K.resident.

Correspondence between the Bank and the Treasury, the Treasury and M.E.W., and between M.E.W.and the British Embassy in Washington extended from 9th November 1944 until 16th November 1945.* The Bank in addition prepared special briefs dealing with each case in turn for submission to Washington in the Spring of 1945.

After consultation with the U.S.Treasury, the British Embassy in Washington cabled (9.12.1944) that general licences were inapplicable, but that the Americans had offered to release the securities in question in return for reciprocal treatment of similarly placed dollar securities held in the U.K.

The Control point of view was expressed in a letter from the Bank to the Treasury (22.12.1944) referring to this cable..... "There is, in our view, no justification for the administrative

application

*See F.E.237.7[D] (Vol.6).

application of normal practice under the U.S.freezing legislation to purely sterling securities which are held in the U.S.A.by banks, who, in turn, hold the securities for the account of blocked nationals in Neutral countries. The fact that such securities are both payable and held in accounts here seems to us clearly to establish H.M.G.'s jurisdiction irrespective of the physical location of the documents of title and we would like to suggest that an approach on these lines should be made to the U.S.authorities. It is unreasonable that through the incidence of the U.S.Regulations we should be obliged, not only to give up our rights of control over sterling income, but to remit it to the U.S.A.instead of to the country of nationality of the owner if we are willing to do so."

The letter also pointed out that U.S.banks already received reciprocal treatment "..... not only in its narrower aspect but in a wider field" since the U.K.did not freeze the assets of neutrals.

A meeting (31.1.1945) representing the Treasury, the Bank, M.E.W.and T.W.E., decided that if the Americans could not be approached on a matter of principle they might reasonably be asked to concede an "administrative adjustment of current practice", an outcome of this decision being the Bank's briefs mentioned above.

The first of these memoranda was a general statement of the case, and in its final paragraph asked the U.S.authorities..... "whether, as a measure of co-operation, they would for their part be prepared administratively to relax the full vigour of their freezing legislation and allow U.K.banks to deal with sterling securities and income thereon to the extent that they would be permitted to do under U.K.legislation had the document been physically located in the U.K.instead of the U.S.A."

On 20th February the Bank wrote to the Treasury enclosing the briefs which they had prepared and requesting that they should be passed on to M.E.W. A decision being apparently no nearer, the Bank wrote to the Treasury again on 2nd May, saying that a decision was urgent. On 18th May they learnt that the briefs had not yet been forwarded.

After

After a further lapse of three months the Bank wrote again to the Treasury (24.8.1945) pressing for some speeding up and adding that they were holding back, pending a decision on the three cases already submitted, a number of other instances of residents with assets blocked in the U.S.A.

On 3rd November a direct communication from the British Embassy in Washington informed the Bank that, as a result of further discussion "with the stubborn back-room boys" they had secured complete elimination of the "objectionable paragraph about neutral holdings which had 'for good measure' but disingenuously been inserted in the draft licence designed to give effect to the inter-Custodian settlement". The Bank informed T.W.E.that from their point of view the outcome "could now be regarded as acceptable" (L. 16.11.1945).

Relations with the Canadian Control*

Exchange Control relationships with this Dominion were in a special class, if only because Canada was a part of the Empire but not of the Sterling Area; there were also large numbers of Canadians living in the U.K., and later Canadian troops domiciled here, while there were similarly a number of U.K.nationals in Canada, augmented during the war by British Missions and evacuees.

In the Spring of 1940 a reciprocal arrangement appears to have been suggested under which Canadians resident in the U.K.and U.K. nationals resident in Canada should both be exempt from the Foreign Exchange Regulations of their respective countries of existing residence. This principle, so far as granting Canadians resident in the U.K.exemption from U.K.Regulations 1 and 5 was concerned, was acceptable to the British authorities; but the definition of the residential status of the individual nationals of one country living in the other was not so easy to determine. In the first instance, the arrangement made for Canadians in the U.K.was that the selection of persons to receive exemption from the U.K.Regulations was to be the responsibility of the Canadian High Commissioner in London.

This was not only calculated to cause delay by introducing a further authority, but was unfortunate since the Canadian High Commissioner was assuming functions properly belonging to the Exchange Control. The High Commissioner could not be expected to bear in mind all the considerations which would influence the Control, or to arrive at the same conclusions. Hence, by August 1940, there was general agreement that the High Commissioner should drop out and that his functions should be taken over by the U.K.Exchange Control or the two Controls in consultation.

During the period when the Canadian High Commissioner in London was issuing the certificates against which exemption was granted to Canadians here his office raised the question of the status

*See also under "Interrupted Communications"(Appendix .... to this chapter) and "Insurance" (Appendix .....).

status of Canadian wives of Englishmen. The English wives of Canadians who went back to Canada with their children were allowed to transfer £100 per annum for their own use, with £50* for each child. Similar treatment was claimed for Canadian wives of Englishmen, and in August the Treasury agreed to it. The Treasury did not, however, agree to the further request that such wives should also be allowed to enjoy any income derived by them in Canada, holding that their status was assimilated to that of their husbands, who were treated as residents of the U.K., and that it would not be equitable to make a distinction between one resident and another.

The Bank of England were anxious throughout to meet the wishes of Canada, and by the end of August agreement between the Controls on Residential Status had been reached except on one or two minor points. The official text of the Agreement, however, was not completed until near the end of the year, although during 1940 decisions had in fact been based in general upon its principles.

In December the Bank issued F.E.115, notifying the banks that the issue of certificates by the High Commissioner had been discontinued, and that future questions of the residential status under the D.(E.)R. of Canadians in the U.K. and U.K. nationals in Canada should be referred to the Bank of England.

The Residential Status Agreement of 1940 read as follows:

"1. (a) A Canadian national who had entered the United Kingdom from Canada for permanent residence prior to the 3rd September 1939 shall be treated as a resident of the United Kingdom.

(b) Conversely a British national who had entered Canada from the United Kingdom for permanent residence prior to the 3rd September 1939 shall be treated as a resident of Canada.

2. (a) A Canadian national who was temporarily in the United Kingdom on the 3rd September 1939 and has since that date continued to stay there and now intends to extend his stay indefinitely or intends to remain there permanently shall be treated as a resident of the United Kingdom.

(b) The

*By the end of January 1941 it was agreed that this remittance should be made for children who had returned to Canada unaccompanied by their mothers.

(b) The converse shall apply equally.

In the former case the United Kingdom Control will notify the Canadian Control of their ruling and of the assets submitted to their jurisdiction, and in the latter case the Canadian Control will advise the United Kingdom Control. The Control of the country from which the person concerned departed shall not release assets until such notification is received.

3. (a) A Canadian national who moved since the 3rd September 1939 from Canada to the United Kingdom shall continue to be treated as a resident of Canada until such time as the United Kingdom Control are notified that his assets have been released by the Canadian Control. Such notification shall contain a statement of the assets released.

(b) The converse will apply equally.

4. In connection with 2 (b) and 3 (b) above, however, the Canadian Control will avoid purchasing sterling from United Kingdom nationals who have only become Canadian residents by accident of the war.

5. (a) A Canadian national who has returned to Canada for permanent residence from the United Kingdom may be ruled a resident of Canada upon arrival in that country by the Canadian Control, who, however, in determining his status will apply the test hitherto applied by the High Commissioner for Canada (see below). When notified by the Canadian Control that a returned Canadian national has been ruled a resident of Canada, the United Kingdom Control will release all assets of such a person.

When determining whether the Canadian national concerned is "not more closely connected with the United Kingdom than with Canada"* the Canadian Control will require the applicant to furnish them with the following particulars in writing:-

(i) Length

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*The phrase employed in the Certificates issued by the Canadian High Commissioner.

(i) Length of residence and occupation in the United Kingdom.

(ii) Nature of connections maintained with Canada.

(iii) Present domicile and intentions with regard to future domicile.

(iv) Date and place of birth.

(v) Country in which Income Tax is paid and

(vi) Any other facts which might tend to show that his connection with Canada is closer than his connection with the United Kingdom.

In particular "residence" in Canada will not be attributed to returning Canadian nationals who were resident in the United Kingdom for reasons of personal preference only.

The Canadian Control will refer to the United Kingdom Control any case in which it appears inequitable to recognise a change of status from "resident in the United Kingdom" to "resident in Canada".

As an administrative arrangement it has been agreed that the Bank of England will, on behalf of the Canadian Authorities, apply the above-mentioned test (Points i - vi) to Canadian nationals wishing to return to Canada, before they leave this country. If the Bank decide that the applicants are to be considered as "resident in Canada" their ruling will bind the Canadian Authorities. If, however, the Bank are not satisfied that the applicants should be so regarded, they will -

(i) Give an interim refusal.

(ii) Instruct the applicants to pass the relevant details to the Bank of Canada, Ottawa, for final decision (which decision will bind the United Kingdom Control)

and

(iii) Advise the Bank of Canada, Ottawa, promptly of the names of the applicants to whom the interim refusal has been given.

If

If then the applicants proceed to Canada before the final decision is given, they will do so at the risk of their being subsequently ruled "resident in the United Kingdom".

(b) The converse will apply equally.

6. The issue of certificates of partial exemption by the High Commissioners shall be discontinued: existing certificates shall continue to be operative.

7. The High Commissioner for Canada will be enabled to make representations in exceptional cases where special circumstances appear to justify some exemption. These will be either -

(i) Cases of Canadians still in the United Kingdom or

(ii) Cases where a person has gone to Canada and the Canadian Control have referred the case to the United Kingdom Control for decision.

8. The presence of ordinary residents of Canada in the United Kingdom and of ordinary residents of the United Kingdom in Canada for war service shall not have any bearing on the determination of residential status.

This ruling applies to civilian war workers as well as to combatants.

9. In individual cases presenting aspects of difficulty or hardship the Control of the country of residence may make special rulings, the particulars of which shall be reported to the other Control, who may make representations in the matter if they so wish.

10. The rulings set out above will not invalidate the continuance of existing approved arrangements for the transfer of limited amounts of sterling for living expenses of Canadian wives in Canada of United Kingdom nationals resident in this country and for English wives in Canada of Canadian nationals in this country."

The Agreement did not cover persons whose normal place of residence was other than Canada or the U.K. and who reached Canada from the Far East or occupied Continental Europe. This category comprised, broadly speaking, persons who under normal U.K. Control practice

practice were regarded as:-

(i) resident in the U.K., i.e., members of H.M.Forces, Embassy and Consular Officials and their families, or

(ii) residents of a part of the Sterling Area occupied by the enemy, or

(iii) non-residents.

The British subjects in (i) continued to be regarded as "resident"; the sterling accounts of those in (ii) and (iii), were blocked under U.K.Regulation 3C(2A) and their foreign currency assets made subject to Canadian jurisdiction. This general rule was subject to the proviso that Canadian nationals could, after consultation between the U.K.and Canadian Controls, be designated "residents of Canada". (For further information see "Refugees: Ex-and Pseudo Ex-Enemies").

Other British subjects arriving from countries outside the Sterling Area (except the Far East and occupied Europe) were being treated by the Canadian Control differently. The Canadian Control were designating such persons as resident of Canada, but generally refusing to purchase any sterling balance held at the date of designation. This procedure was likely to prove embarrassing to the U.K.Control: while they were not committed to accept Canada's decision, it was obviously preferable that there should not appear to be any divergence of views between the two Controls so far as the individual was concerned; moreover there might not be powers under the U.K.Regulations to block a sterling account which the Canadians refused to purchase.

It was therefore arranged that the position of such persons should first be clarified with the U.K.Control. If the immigrants had some good reason for settling in Canada, e.g., firm connections with the Dominion, they could be redesignated as Canadian residents. As, however, Canada was at no time anxious to become a large holder of sterling, and on the other hand was eager to acquire U.S.dollars, the U.K.Control agreed to redesignate as "Canadian" residents of certain countries (at first Switzerland and the U.S.A.) and to sell U.S.dollars to the Canadian Control to the equivalent of

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their relative sterling balances at the date of redesignation. As with the advent of the Special Accounts and Central American Accounts the U.K.Control gradually codified their views on the relative hardness of various currencies, so this practice was extended; but no general line was laid down until September 1942.

In July 1940 and January 1941 certain arrangements were made about the sterling accounts of Canadians, and in May 1941 about the Canadian dollar accounts of residents of the Sterling Area.

Under F.E.76, of 18th July 1940, Canadians having sterling accounts could receive credits from residents in the Sterling Area or from residents in Canada or Newfoundland, and could make payments from their accounts to similar persons. On the same day F.E.77 notified bankers that the Canadian Control would release only sterling or Canadian dollars for goods of Sterling Area origin imported into Canada or Newfoundland whether the goods were purchased in the Sterling Area or elsewhere. When purchased in the U.S.A.for sterling, the sterling paid by the Canadian Control through Canadian banks to persons resident in the U.S.A.could be credited to U.S.Registered Accounts.

By F.E.120 of 3rd January 1941, on receipt of instructions from authorised Canadian banks certain payments of sterling, in addition to those authorised by F.E.76 and 77, could be made by U.K. banks for account of residents of Canada to Registered, Special or "ordinary" sterling accounts of persons outside the Sterling Area. These payments covered a limited number of transactions (e.g.,the payment of coupons on Canadian sterling bonds) the nature of which had been made known by the Canadian Control in their "Instructions to Authorised Dealers".

A Regulation introduced in Canada on 1st May 1941 permitted transfers from Canadian dollar accounts of residents of the Sterling Area to be made solely to other Sterling Area residents, or to residents of Canada or Newfoundland.

As regards the Canadian dollar accounts of non-residents of the Sterling Area, Canada or Newfoundland, it was agreed that banks in the Sterling Area could arrange for transfers only between residents

of

of the same country, or could make payments (in accordance with Regulations) in Canada or Newfoundland. Credits had to come from authorised sources in Canada or Newfoundland. F.E.147 of 14th June 1941 called attention to these new Regulations (which were the counterpart of the U.K.canalisation of payments - F.E.76).

Capital Transfers

At the beginning of August 1941 the Canadian Control Board enquired as to the policy of the U.K.Control in regard to transfers of capital to Canada:

> "..... Within a short while after the introduction of Control we realized that, since your regulations permitted transfers of sterling to be made between non-residents without formality and since you regarded Canadian accounts as being non-resident, it was possible for large amounts of sterling to be transferred to Canada by persons who were not under your Control. Such transfers were obviously an embarrassment to both you and us and we accordingly did our best to prevent them by instructing our Authorized Dealers that they must not purchase sterling from non-residents.
>
> When, in July of last year, you introduced the so-called 'canalization' and imposed restrictions on transfers of sterling to and from Canadian accounts, we took it for granted that you would in future do all the necessary policing. Accordingly, we relaxed our previous ruling and told our Authorized Dealers that they 'may assume that instruments issued by banks in the sterling area which clearly contemplate payments in Canada have been issued pursuant to authority granted by the United Kingdom Control.' At that time we were making periodical gold settlements with you for accumulations in excess of our repatriation programme and while we definitely discouraged transfers of capital from the sterling area to Canada by refugees, we were actually getting hard currency settlement in cases to which you gave your approval.

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The situation has changed since the end of 1940 in that you are no longer making periodical settlements with us. Consequently capital transfers simply add to our sterling accumulation and to our financing problem within Canada. I cannot convince myself that there is any real justification for further adding to our accumulation and in so doing using up the Canadian dollar resources of our Exchange Fund for the purpose of facilitating private transfers of capital, particularly when the parties concerned have no long-standing connection with Canada.

There may be in some instances perfectly good grounds for transferring private capital in order to further the production of war materials needed by the United Kingdom. In these cases it may suit best that transfers be made in the form of Canadian dollars, but this need not necessarily be stipulated. The real point is that any proposed transfers of private capital for commercial purposes (such as plant expansion for war purposes or otherwise) should not only have your approval but as well there ought to be consultation with us to ascertain if we regard the transaction as justifiable..."

The Bank agreed to consult the Canadian Foreign Exchange Control Board before transfers of capital for commercial purposes in excess of £500 were allowed, and made arrangements to this effect with other Sterling Area Controls likely to be concerned. They also prepared and forwarded a list of capital transfers to Canada between December 1940 and August 1941, which showed a total of some £891,000, of which Legacies or similar payments had accounted for all but about £70,000.

The situation in which the U.K. had ceased to be able to supply gold or Canadian dollars to meet a large part of their expenditure in Canada made it politically necessary for the Canadian Control Board to scrutinise very carefully the procedure under which they were becoming long of sterling; the same considerations applied equally, of course, after the $1,000 million gift (Jan.1942); and further correspondence took place from October 1941 to February 1942 on capital transfers, etc. The Bank of Canada in October suggested

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the introduction of the blocked sterling procedure which had been in force for other countries from 23rd November 1940, but were ready to admit without question capital transfers up to £500, and for amounts in excess of this sum if approved by Canada. The restriction was not to apply to the maturity proceeds of life, marine or other insurances, all of which could be transferred. Transfers of capital in excess of £500 would not be allowed by refugees or Sterling Area residents to Canadian accounts without prior agreement by the Canadian Control.

The Bank of England accepted the proposal of blocked sterling, but thought that capital transfers up to £500 might involve difficulties with the U.S.A. as making a discrimination between Canadians and Americans. They would prefer to reduce this to £5 only, except as regards legacies, when £100 should be the limit. (Legacies, indeed, were the principal form of capital transfer, as stated above). To the accounts on which no capital transfers would be permitted, there should be added those of Canadian nominee companies controlled under Regulation 5(C).

By the end of the year the position was that the U.K. could meet the wishes of Canada as regards future payments but saw difficulties as regards the past: cases were still outstanding where a refugee had been advised that under F.E.46 his sterling would be available to him in Canada; and moreover it was normal practice under F.E.83 to allow a trans-migrant refugee to transfer to his country of ultimate destination any specified currency assets and gold surrendered to the U.K.Control.

The new administrative procedure was introduced on 18th February 1942, but was somewhat revised at the end of April when the arrangements were as follows (Memorandum for internal circulation only):

"I. Application of blocked sterling procedure to Canada

II. Redesignation of sterling accounts of persons taking up residence in Canada.

1. Capital payments from the U.K. to residents of Canada (Regulation 3E)

The procedure detailed in the Notice to Banks and Bankers on Blocked Sterling Accounts of the 23rd November, 1940, will be applied

applied to residents of Canada. The normal concessions for amounts under £5 and the first £100 of legacies will apply. No releases for any purpose other than investment in approved securities from an account of a resident of Canada blocked under Regulation 3E or of any amount properly payable to such an account will be permitted without the prior approval of the Canadian Foreign Exchange Control Board, Ottawa, to whom applicants must in all cases be referred.

As regards releases the following procedure will apply:-

(a) Sterling amounts to be disbursed in the Sterling Area

The Foreign Exchange Control Board, Ottawa, will communicate their decision to the applicant and advise the Bank of England in cases where any release is approved.

(b) Sterling amounts to be purchased against Canadian dollars by the Bank of Canada

The holder (in Canada) will be required to instruct the banker in the United Kingdom keeping his Blocked Sterling Account to transfer to the Bank of Canada's ordinary account at the Bank of England, London, such sterling as is to be released. These instructions will be transmitted through the Bank of Canada in Ottawa to the Bank of England. On receipt, the instructions may be regarded as an "order to pay" and after being stamped "authorised" by the Securities Control Office will be passed to the Drawing Office via the Chief Cashier's Office, Trade & Payments Section, for presentation to the drawee bank for payment and subsequent credit of the proceeds to the ordinary account of the Bank of Canada under advice to that bank.

II. Redesignation of Sterling Accounts

Except in the following instances, the Bank of England will not change the designation of any sterling account to "Canadian" unless the prior approval of the Foreign Exchange Control Board, Ottawa, has been obtained:-

(a) Returning

(a) Returning Canadians covered by paragraph A (i) (a) below.

(b) Accounts which are blocked at the seme time as they are redesignated.

A. Persons proceeding to Canada from the U.K.

(i) Canadian nationals

(a) The accounts of Canadian nationals covered by paragraph 5(a) of the text of Agreement on Anglo-Canedian residence of November, 1940, may be redesignated by the Bank of England as those of residents of Canada.

(b) The accounts of Canadian nationals whom the Foreign Exchange Control Board refused to regard as returning Canadians (i.e., persons who were in the U.K. for reasons of personal preference) will continue to be treated as those of residents of the U.K.

(ii) British subjects (other than Canadian)

(a) Those who entered Canada for permanent residence more than 12 months before the outbreak of war - any accounts which may still be regarded as resident should, on application, and after consultation with the Foreign Exchange Control Board, be redesignated as those of residents of Canada.

(b) Those who entered Canada for permanent residence shortly before the outbreak of war (up to 12 months) - sterling accounts to continue to be regarded as resident. If the decision is disputed on good grounds the case should be referred to the Foreign Exchange Control Board, Ottawa.

(c) Those who were temporarily in Canada on 3rd September, 1939, and have since that date continued to stay there and now intend to extend their stay indefinitely or intend to remain there permanently - sterling accounts are to continue to be regarded as "resident".

(d) Those who have left the United Kingdom since the war with permission of H.M.Government for the purpose of taking up employment in Canada - such cases should be dealt with in accordance with the procedure set out in paragraph II(2) of the memorandum

the memorandum of the 29th April, 1942, headed 'British Nationals'.

(e) British women allowed to leave the Unitad Kingdom for Canada to marry persons permanently resident there - their accounts should be blocked under Regulation 3C(2B): the £1,000* concession provided for under the Committee's ruling of 20th January, 1942, will be met by a sale of Canadian dollars against sterling, not by a sterling tranafer/. Canada will recognise such persons as resident in Canada and will not object to their receiving their sterling income.

**This arrangement does not apply where the marriage takes place in the United Kingdom. The question of residential status should in such cases be referred to the Foreign Exchange Control Board, Ottawa.

(f) Residents of the U.K.who married members of Canadian Forces and have become widows - pensions and allowances due to such widows will be payable to them in Canada. The question of their residential status will be referred in each case to the Foreign Exchange Control Board, Ottawa. If they are not prepared to regard such persons as resident in Canada for all purposes, their sterling funds will continue to be treated as those of a resident of the United Kingdom. We will permit remittances to Canada sufficient to bring the amount of pensions and allowances received in Canada up to the "Canadian wives concession" figure, i.e.,£100*** per annum plus £50 per annum for each child.

(iii) Foreign nationals

In general the Canadians are agreeable to F.E.168 treatment being given to foreign nationals entering Canada, including the transfer of income on their sterling securities, but it will be necessary to make the following adjustments to that procedure.

Those

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*Later raised to £2,000.

/Later the Canadian Control once more began to accept sterling transfers.

**Women marrying in the U.K.residents of Canada received the same treatment subsequently.

***Later raised to £240 p.a.for the mother and £120 p.a.for each child.

Those who left the U.K.after the issue of F.E.168

(a) Refugees - we will sell U.S.dollars against sterling in respect of all gold, specified currency balances or securities (except Canadian dollar balances and securities) surrendered to H.M. Treasury before departure, irrespective of whether such currencies are still specified or not. Such U.S.dollars must be placed at the disposal of the refugee at a branch in Canada of a Canadian bank in order to ensure that they will be sold to the F.E.C.B.who must be advised by the Bank of England of the details of all cases sc dealt with. For Canadian dollar balances or securities we will sell Canadian dollars. This concession will be worked administratively under F.E.168 without a Notice.

(b) U.S.nationals - We will redesignate sterling accounts as "Canadian" and sell U.S.dollars to the Bank of Canada. Settlement with the Bank of Canada will be effected on the 1st September next and at the end of every six months thereafter when a schedule giving full details of accounts so re-designated will be sent to the F.E.C.B.

Those who left the U.K.before the issue of F.E.168

(a) F.E.83 cases - F.E.168 procedure regarding sterling accounts to be applied [i.e., block under 3C(2B)].

(b) Persons who have specifically been promised treatment under F.E.46 either by the Control or by their own bankers - we adhere to our undertaking to allow F.E.46 treatment and explain the case to Canada.

B. Persons proceeding to Canada from the Sterling Area other than the U.K.

When an application is received, the Bank of England will themselves consult with Canada (if necessary after having obtained the views of the local Control).

C. Persons proceeding to Canada from countries outside the Sterling Area.

(a) Persons whose accounts are subject to Regulation 3C(2A) - we adhere to the treatment set out in F.E.164 whether the account-holder elects for treatment under paragraph 2(a) or 2(b) of that Notice.

Note: The Foreign Exchange Control Board, Ottawa, must be consulted before the account of a Canadian national, which

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is blocked under 3C(2A), is released and designated as Canadian resident on his return to Canada.

(b) Persons going from non-enemy territory - our general* practice that we do not redesignate unless it suits us is to remain unchanged, i.e.,we shall refuse to redesignate as Canadian the accounts of persons going to Canada from any non-enemy country outside the sterling area. Cases of returning Canadians should be referred to the Foreign Exchange Control Board, Ottawa.

Note: In the case of U.S.nationals moving from either enemy or non-enemy territory to Canada and of persons of any nationality moving to Canada whom we regard as residents of the U.S.A., we will redesignate sterling accounts as Canadian and sell U.S.dollars to the Bank of Canada. As regards settlement with Canada, see paragraph II A.(iii) (b) above.

It should be noted that Sections II A.(ii) (b) and II A.(ii) (c) above are somewhat at variance with the terms of paragraphs 1(b) and 2(b) of the "Text of Agreement between the U.K.and Canadian Controls on Anglo-Canadian Residence". If in any particular case the Foreign Exchange Control Board have ruled a person coming within either of these Sections to be a resident of Canada as regards his sterling as well as his currency assets, we shall abide by such ruling.

29th April, 1942.

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*There were certain administrative exceptions.

The next question that arose (February, 1942) concerned the profits of subsidiaries and branches in Canada of U.K.parent companies. As a ganeral principle the Canadians thought that total current earnings since the beginning of the Control, i.e., profits after deduction for depreciation and taxes, should be remitted in cash. This, however, was not a thing which the Canadian Control could themselves enforce: it was also a matter for the U.K.

The Bank of England thought that no standard formula to deal with profits was possible. It was in Canada's interest as well as in that of the U.K.that the assets of such concerns should be maintained at full strength. The Bank's practice was to examine the cash, inventory and taxation position. They would be glad of the guidance and assistance of the Canadian Control. The Bank were also prepared to allow spara cash of such branches and subsidiaries to be invested in Canadian War Loans, etc. On the question of inventories, it was agreed with Canada that there might be advantages at times in allowing stocks to be built up (though not for post-war purposes): remittance could come later when stocks ran off in the normal course.

Agreement was eventually reached on all such points. In April 1942 the Bank of Canada sent out a questionnaire to Canadian banks in order to obtain information as to the holdings by residents of the Sterling Area of Canadian dollars and securities, U.S.dollars and securities, and sterling balances, with certain exceptions (including amounts under $1,000). This information, which was subsequently passed to London, was sought not only as a measure of co-operation between Controls, but also with a view to ensuring that where possible all Sterling-Area-owned Canadian dollar assets should be mobilised against the Canadian Mutual Aid arrangements.

The number of questions still arising out of aspects of the Control in which both countries were interested made it desirable to come to some clear understanding as to the demarcation of their respective spheres of influence. Canada naturally felt that the extent to which she had to finance the Sterling Area deficit in the

Balance

Balance of Payments entitled her to decide what types of payment should be credited to Canadian sterling account. Again, there had been instances where the Canadian Control had been inclined, through a mere excess of zeal, to attempt to decide questions which were properly the concern of the U.K. Among the points to be settled was a concession made by Canada to the U.S.A.under which she paid ~~them~~ her U.S.dollars for certain scarce commodities controlled by the U.S.A. but bought by ~~them~~ her from the Sterling Area. The Bank of England agreed to provide U.S.dollars in reimbursement for these payments and also, more generally, for all remittances by Sterling Area Controls which the Bank of England and the Bank of Canada subsequently should regard as outside their Agreements.

H.M.Treasury did not much like this undertaking but were told that it would not involve the loss of any large amount of reserves. Possible claims were thought not to exceed £500,000 in all.

Outstanding questions were mostly settled by the introduction of an agreed list of payments operative from 23rd September, 1942.

"(a) Sterling area Controls will ordinarily approve remittances to Canada only if the payment is covered by the attached schedule of agreed types of payments.

If, however, a remittance is approved as an 'agreed payment' and the Foreign Exchange Control Board subsequently feel, and the Bank of England agree, that the transfer should not properly be regarded as an 'agreed payment', the Bank of England will sell U.S.dollars to the Bank of Canada equivalent to the amount of Canadian dollars or sterling transferred.

(b) Where a sterling area Control feels that a payment not falling under one or other of the categories of agreed types of payment is justified on compassionate grounds or for other special reasons -

(i) transfer may be approved forthwith and U.S.dollars sold to the Bank of Canada (sterling area Controls other than/that in the United Kingdom will either refer applications to the

Bank

Bank of England prior to approval or advise the Bank of amounts transferred without prior reference).

(ii) the application may be referred by the Bank of England to the Foreign Exchange Control Board, Ottawa, for a decision as to whether the Board are prepared to purchase the sterling or permit a Canadian dollar transfer without subsequent settlement in U.S.dollars (sterling area Controls other than that in the United Kingdom will refer such applications to the Bank of England)."

The following was the schedule of "agreed types of payment"...

(a) Balances held on sterling bank accounts as at the close of business on the 2nd February, 1942, by persons who have been residents of Canada since prior to 3rd September, 1939.

(b) Balances held on sterling bank accounts by Canadian nationals who have returned to Canada for permanent residence since 3rd September, 1939, less amounts held on behalf of third parties, etc. (See memorandum of the 29th April, 1942, "Redesignation of sterling accounts from resident to non-resident".)

(c) Balances in the nature of a dowry and not exceeding £1,000* owned by British women who become residents of Canada as a result of merrying residents of Canada or persons normally resident in Canada.

(d) Reasonable expenses in Canada of residents of the sterling area travelling in Canada on business or in an official capacity.

(e) Remittances required for the maintenance in Canada of residents of the sterling area in amounts not exceeding £250† to any person in any calendar year and remittances required to meet reasonable medical and hospital expenses incurred in Canada.

(f) Payments to residents of Canada of the following types, whether or not deposited to a sterling bank account, provided that in the case of a payee (other than a Canadian national) who has become a resident of Canada subsequent to 3rd September, 1939, such person became entitled to receive such payments subsequent to

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*Subsequently increased to £2,000.

†Subsequently amended to a maximum of £250 p.a.for the principal of a family group and £150 p.a.for each dependent member of such group.

to the date on which he became a resident of Canada -

(i) Payments for exports of goods from Canada to the sterling area.

(ii) Payments for services rendered by residents of Canada for residents of the sterling area, e.g., wages, salaries, commissions, fees, royalties, freights, etc.

(iii) Current income such as interest, rentals, dividends, profits, income from estates or trusts, pensions, etc.

(iv) Legacies and other similar payments under estates up to an amount not exceeding £100 payable to any one beneficiary from any one estate.

(v) Remittances in amounts not exceeding £250† to any person in any calendar year where such person is dependent for his maintenance upon such remittances.

(vi) Remittances by members of the Canadian Armed Forces serving in the sterling area up to the amount of their service pay and allowances.

(vii) Death or maturity claims on life insurance policies on the lives of residents of Canada.

(viii) Marine insurance claims.

(ix) Fire and accident insurance claims other than those on property situated in the sterling area.

(g) Remittances not in excess of £100 authorised by a sterling area Control on compassionate grounds or for other special reasons.

(h) Other payments not in excess of £5 each.

(i) Such other payments or remittances as may be agreed upon between the Foreign Exchange Control Board and the Bank of England.

22nd September, 1942.

This agreement was to be revised after six months, but there was no revision; evidently the arrangements had worked satisfactorily.

Towards

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†Subsequently amended to maxima of £250 p.a. for the principal member of a family group and £150 p.a. for each dependent member of such group

Towards the end of 1942 the question arose of revising cases where a High Commissioner's certificate had been given, so that these might be brought into conformity with the principles laid down in the Residential Status Agreement of December 1940. There were more than 300 such cases. By June 1943 the Bank of England had analysed them and proposed to deal with them as follows:

Exemption should be continued in respect of persons who had arrived in the U.K.from Canada after 3rd September 1939 or were already in the U.K.at that date and had remained to assist in the war effort, including full-time Canadian Government officials in the U.K. These classes covered about 15 persons.

Exemptions should be withdrawn from persons normally resident in the U.K.or who were there at the outbreak of war and remained for reasons of personal preference. There were about 75 of these. They were, however, to be allowed to retain foreign currency accounts to meet established and reasonable commitments.

There were about 20 representatives in the U.K.of Canadian institutions, such as banks and insurance companies, who were to be exempt if they had arrived after 3rd September 1939. If they had come to the U.K.before that date it was proposed either to transfer them to the jurisdiction of the Canadian Control, or to keep them subject to the U.K.Control, withdrawing exemption but again allowing foreign currency accounts for reasonable commitments. In the event the Canadian Control preferred this alternative.

About half the total number of cases could not be classified, and remained to be dealt with individually. The proposals were accepted by Canada, and in October were notified by the Treasury to the Canadian High Commissioner in the U.K. After this the Bank proceeded upon the lines proposed.

The strong objections raised by the U.K.representatives of Canadian institutions - who maintained that no matter how long they had been in the U.K.they were nevertheless subject to recall at any time to Canada - and many other Canadians who claimed that they

intended,

intended, as soon as conditions allowed, to return to their homeland; caused the U.K.Control subsequently to modify considerably the agreed proposals. The representatives of Canadian institutions and, broadly speaking, the Canadians who claimed that they would return to Canada when possible were granted exemption in respect of their Canadian dollar assets; and, so far as concerned their assets in the other specified currencies, they were given the option of being subject to either U.K.or Canadian jurisdiction. In practically every case they chose Canadian jurisdiction.

In the Spring of 1944 the Canadian Control asked for reimbursement in U.S.dollars in some further instances; viz., for goods of U.S.origin paid for by Canada in U.S.dollars and then shipped to the Sterling Area without further processing in Canada - on contracts placed in the Dominion through the Canadian Mutual Aid Board. Normally the Board placed such contracts only where there was a reasonable assurance that the goods could be produced in Canada; but it was sometimes found that prompt delivery from Canadian sources was impossible, whereas the U.S.A.could promise immediate shipment. The Bank agreed to reimbursement on the understanding that there would not be many transactions of this kind. Subsequently it appeared that the amounts involved might be considerable, and in accordance with a suggestion from the Treasury the Bank ~~placed a limit of~~ limited payments to U.S.$2 million a year, any large amounts to be specially discussed.

In the Spring of 1944 also the Bank asked the Canadian Control whether they would object to the release of reasonable amounts to pay for the advertising of British products in Canada with a view to post-war trade. No objection was raised, but arrangements were made with the High Commissioner in Ottawa to watch Canadian reactions so that these activities could be controlled.

At the end of 1944 it was agreed with the F.E.C.B.that Canadian women who married U.K.residents might, on arrival in the U.K. for permanent residence, be re-designated as U.K.residents without prior reference to the Board. The Board were to be advised of all such

cases

cases, the advice to include details of the redesignated person's assets in Canada, and where they were held.

On the 31st August 1945 the F.E.C.B.announced a further relaxation of the control of Blocked Sterling. Henceforward, by arrangement with Sterling Area controls, the first £1,000 (instead of the first £100) of legacies or other capital payments from Sterling Area estates and due to Canadian residents might be released. More precisely, the new arrangement limited the total amount transferable to a beneficiary from any one Sterling Area estate since 3rd February 1942 to £1,000.

On 20th March, 1946, the question of Capital transfers having become primarily the concern of the Sterling Area controls, the Board directed holders wishing to transfer Blocked Sterling to Canada to apply, through the appropriate control, to the Bank of England. The Bank would now consider applications in respect of certain transfers which, at the Board's request, had not hitherto been authorised, e.g., funds derived from the repayment of securities or mortgages, sales of real estate, the sale or winding-up of companies, the surrender of insurance policies, withdrawals from building societies' accounts; and also the sterling accounts of foreign nationals blocked under Regulation 3C(2B).

LOCAL CONTROLS OF THE STERLING AREA

From the beginning of the war it was necessary to institute as complete control as possible over the trade and finance of the Dominions, Colonies, Mandated Territories, etc.of the British Empire and of such other countries (e.g.Egypt) as held their reserves and settled their international payments in sterling. Control was not necessary over trade and other transactions between these various territories and the U.K., which could still be settled in sterling. But control over their trade with countries outside the sterling area was essential, as it was for the U.K.; and in the outlying parts of the Area more extensive boundaries and less easily supervised communications (and entrepot trade) would tend to make leakages easier.

Arrangements were acordingly made with each Sterling Area territory to set up a Control to enforce, in case of war, the code of Regulations imposed in the U.K., with a minimum of variations such as individual Area members might find unavoidable. As changes occurred in U.K.practice the other Area members were informed by means of circular letters, telegrams and despatches from the India, Dominions or Colonial Office, as the case might be. Likewise, the Dominions, Colonies, etc.sent to the Bank of England copies of the Regulations as framed by themselves, in order that they might be kept on the rails and any deviation from U.K.practice noted and, if necessary, corrected.

Dominions and India

Active preparation for setting up local controls began in the Spring of 1939, when the Bank sent to the other Area members, via H.M.T.and the Dominions and Colonial Offices, and with Treasury authority, notes explaining the plans and intentions of the U.K. Control in the event of war, together with Foreign Exchange memoranda and forms.

"Very

"Very satisfactory progress" was soon reported in the response from Australia; New Zealand had at least duly noted and acknowledged; while South Africa was rather late in taking things seriously.

India had special problems confronting her; she was in a somewhat different category, having an independent gold and exchange market, and appeared to need more comprehensive action. Ideas of exchange control had to develop from earlier ones perhaps more applicable to T.W.E.control; and a natural desire on the part of the Indians for an independent rupee also had to be overcome.

In early discussions the Bank feared that Indian arrangements might not prove stringent enough, and that there would be risk that the central reserves might be tapped in ways that escaped U.K. control (e.g.through dealings in New York or Shanghai). At all events by early May the Bank had asked for and approved (suggesting certain excisions) a list of banks to act as authorised dealers in India.

In July and August the Governor of the Reserve Bank was in London, and his visit helped to clear up many points which had arisen during the strenuous endeavours of the Indians to evolve a satisfactory system of control.

As late as 17th July, when the position was reviewed* it seemed clear that alignment of all Dominions "at Zero" would be incomplete. Strict uniformity, it was realised, would be impossible, and indeed inappropriate because of the variety of financial structures existing within the Empire.

On the 24th August the penultimate step was taken when the Dominions and India received a cable warning them that from the opening of business on the 25th the E.E.Account would not be in the gold market.

Notwithstanding

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*Letter G.L.F.B.to Sir F.Phillips.

Notwithstanding early difficulties matters were sufficiently advanced when war was declared to enable the Treasury to issue, on 3rd September 1939, the "Currency Restrictions Exemptions Order", the effect of which was that transfers of sterling might be freely made, without completing Form E.1. to Australian, Burmese, Eire, Indian, New Zealand, South African and Southern Rhodesian accounts in the U.K.; and likewise authorised dealers might sell the currencies of these countries against sterling without requiring the completion of Form E.

Events now moved quickly. On the 5th September the India Office reported that they had heard from the Indian Government that exchange control had been imposed in India. The following quotations from a cable (6.9.1939) from the Reserve Bank of India to the Bank of England and from the Bank's reply (7.9.1939) provide an example of early endeavour to achieve mutual understanding within the Sterling Area control:

".....Authorised Dealers here have outstanding contracts in U.S.dollars, balance of which they would normally meet by sales of sterling in New York. We have asked for details and will let you know position shortly. We hope you will be able to assist by providing U.S.dollars against sterling to meet outstanding contracts if required and would be glad to hear what method banks should be asked to adopt.

Same position may arise in future, at any rate seasonally. For the present we have advised banks to keep their books balanced but we should be glad of your suggestions to meet this possible difficulty in future. Of course if surpluses arise they would be available for sale to you."

The Bank replied:

".....Any demands for dollars which you approve will be supplied promptly through the agency of the London branches of the

the Exchange Banks. When making application to us they should state that they have received authority from you.

Future demands are not on the same footing as those now outstanding. We shall rely on you not only to insist so far as possible upon banks keeping a balanced position, but also to reduce the current and seasonal demands upon our own reserves."

The Indians were grateful and agreed to act accordingly.

Egypt (and Iraq) did not come into the Sterling Area control for nearly a month after the outbreak of war. There were good reasons why Egypt could not be advised, like the Dominions, of the preparations made by the U.K.and of their development. Once war had been declared the pressure of events made progress much more rapid.

A letter from the Treasury (E.R.D.11.8.1939) to the Foreign Office begins:

"I had a word with Niemeyer about the possibility of giving Egypt some stimulus to prepare for the imposition of a measure of exchange control should war break out but he is strongly against any action being taken at the moment. It would almost inevitably involve explaining our own proposed action to the Egyptians, and as the present Egyptian Cabinet is a somewhat unknown quantity he would be more than ever reluctant to do this at the present moment. The fear of leakage is too serious....."

Sir Otto Niemeyer was still of the same mind when consulted by the Treasury on 30th August, and thought any communication to the Egyptians had better wait "till after Zero, and if anywhere any suggestion were made it had better be made to the Governor of the National Bank of Egypt* ~~(Sir Edward Cook)~~ for him to raise in Egypt rather than through the High Commissioner and the Egyptian Government."

By the 6th September the General Manager of the National Bank of Egypt in London had sent all relevant documents to Sir Edward Cook, "not merely that he should know what we were doing but as a possible example if, as the Central Bank, he wished to take similar action in Egypt."

* Sir Edward Cook.

On

On 7th September Sir Edward cabled informing the Bank that the National Bank "had taken steps to regulate purchase by residents in Egypt of currency mentioned in Treasury Regulation of September fourth"*; urgent business (such as the essential financing of the cotton crop, then just beginning) was exempted.

Control so far had the support of no Egyptian law; and on 12th September the Bank cabled....."We would feel that some legal prohibition will be needed to enforce your request to the banks. How far can you rely on making control effective? We should like to add Egypt to Sterling Area if we were satisfied that there was no risk of evasion owing to legal loopholes."

The Egyptian Government readily responded to Sir Edward Cook's approaches, and the necessary legislation was soon drafted. The National Bank as head of control was to receive weekly returns in a form which would enable them to watch its operation closely. Other authorised dealers included, beside Barclays, the Bank Misr (Egyptian), the Ottoman and the big French banks.

The notification to authorised dealers in the U.K. that by Treasury Order Egypt (including Anglo-Egyptian Sudan) and Iraq were exempted from the provisions of Section 3(i)(b) of the Defence (Finance) Regulations was dated 29th September 1939.

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*Refers to notice (4.9.1939) published by H.M.T. in London Gazette prohibiting, with reference to Regulation 5 of the D.(F.) R., sales of U.S. and Canadian dollars, Belgas, Swiss francs, Guilders, Argentine pesos, Swedish kronor, Norwegian kroner and French francs.

Colonies, etc.

A meeting at the Treasury (14.2.39), attended by Mr.Bolton for the Bank, found itself in general agreement on the kind and scope of restrictions necessary to control exchange and trade in the Colonies, etc. They contended that certain territories, by virtue of their peculiar relationships with neighbouring territories, (e.g., Hongkong with its entrepot trade), would need special watching if evasion were to be prevented. It was agreed that Colonial Governors should receive no communication until U.K. draft regulations were completed.

At the end of April draft regulations by the Colonial Office reached the Bank, and needed little comment. The Bank suggested that all Colonial administrations should be asked to prepare regulations on the same lines as the U.K.; but as late as the 20th July Mr.Cobbold, writing to the Treasury, said "As to the Colonies, I hardly know where we stand ..... there is not much evidence of progress and the subject is probably more complex than appears".

The Colonial Office drafted a circular despatch (dated 23rd August) which satisfied the Bank and the Treasury, and which opened by referring to an earlier one (4th March)* which, it was stated, had enclosed copies of a draft code of Colonial Defence Regulations. These regulations must therefore have been drafted about a month before those sent to the Bank in April, or very much delayed in reaching the Bank if they were the same. The despatch of the 23rd August also enclosed a "memorandum regarding Exchange Control in Colonial Dependencies" and asked Governors, etc., with reference to certain problems† which it invited them to consider, to inform the Colonial Secretary of the extent of Exchange Control which would be necessary in their territories.

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*No copy in the Bank.

†e.g., the extent to which exports to foreign countries could be permitted, the exclusion of all non-essential imports, and the choice between obtaining essential imports from the U.K. (involving a drain on U.K. material resources), from other sterling countries or from other countries (involving loss of exchange).

On the 29th August a circular cable from the Colonial Office summarised the most important parts of the D.(F.) R. and asked from each Colony, etc.:

(a) telegraphic acknowledgment of its receipt;

(b) assurance that on the outbreak of war its government would bring into force regulations "on the lines of and not less stringent than" those summarised.

Without that assurance H.M.Treasury would not be able to permit transfer of money between the U.K. and the Dependencies in question.

By the 1st September satisfactory replies had been received from most Colonies, and by the 2nd September the Colonial Office were in no doubt that all Colonies would be willing to make the necessary Orders.

In the Dominions and India the Central Banks provided the obvious control liaison. In the Colonies, and other Dependencies and Mandated Territories, control was the responsibility of Civil Servants, variously styled but usually in effect the senior financial officer of the particular Colony - Financial Secretary, Colonial Treasurer (but sometimes a less personal agent such as the "Economic Warfare Branch", Fiji).

Authorised dealers, in the Dominions and India the Joint Stock Banks (or Exchange Banks) operating locally, in the Colonies, etc. were somewhat more narrowly confined owing to the way in which banking facilitiés had developed. Over a very large part of the Colonial Empire Barclays (D.C.& O.) had a major share: in West Africa the Bank of British West Africa, in East Africa the Standard Bank of South Africa and the National Bank of India, in Palestine and Cyprus the Ottoman Bank, and in the Caribbean the Royal Bank of Canada (universally)and other Canadian banks (less frequently) covered their respective fields. Purely local banks only very occasionally participated - e.g.Butterfields (Bermuda) Mauritius Commercial Bank, Bank of Cyprus.

A Colony's geographical position, or other local considerations, might cause deviation in its exchange control practice from that of the U.K. Taking the Colonial Empire as a whole deviations were numerous, but their effect is difficult to assess in the aggregate. For example, because of close ties with the U.S.A.special concessions for business and family travel were necessary in the West Indies; some degree of relaxation also existed with regard to travel from East Africa and the Rhodesias to the Belgian Congo and Portuguese East Africa; export control hardly existed in Southern Rhodesia; while entrepot trade (e.g.Aden) called for special arrangements with neighbouring territories.

It is hardly surprising that the widely different conditions existing in the Area, where membership was so varied and so scattered, led to an almost constant stream of enquiries, directives and compromises, most of which, viewed in perspective, now seem of comparatively small account.

Statistics

In order to keep watch over the amount and direction of other Area members' receipts and expenditure in hard currencies and ~~other~~ their sterling transactions with hard currency countries, it was necessary

necessary to collect a good deal of statistical information from the local Controls. This information was also an essential part of the material on which estimates of balances were based.

In April 1940 each Dominion was asked to make a detailed analysis of all currency transfers approved locally, and to submit results to the U.K.Control in a monthly statement.* The Bank (Governor's letter) approached the Dominion Central Banks and the Colonial Secretary re the Colonies, etc. Where transfers to non-residents were in sterling the forms themselves were sent to the Bank of England for analysis together with U.K.sterling approvals.

Later, with the coming of Lend-Lease, it became important to know regularly the Areas total receipts of U.S.and Canadian dollars. Hitherto authorised dealers in Dominions, Colonies, etc. had covered their net positions in dollars with the Bank of England (through their appropriate intermediaries) in London.

On 3rd June 1941 local Controls were asked to send cables to the U.K.Control at the end of each month showing:

(i) (a) total receipts of U.S.dollars during the month by authorised dealers, other than dollars bought from the U.K.Control;

(b) total amount under (a) sold to the U.K.Control; and

(ii) similar figures for Canadian dollars.

On 27th March 1942 it was further requested that these returns should include authorised dealers' spot balances of U.S.and Canadian dollars.

On 29th July following Dominions, Colonies, etc., were asked to add, where applicable, to their regular monthly cables the closest possible estimates of receipts of U.S.dollars arising from

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*Showing all main groups and items in the Board of Trade classification (about 50) and some dozen other items covering transport and various financial payments (circular letter from Colonial Secretaries 3.4.1940).

from visits of U.S. warships or from the presence of U.S. Service personnel, civilian personnel normally resident in the U.S.A. but employed locally by the U.S. authorities, and from U.S. bases and military establishments.

Other statistics, prepared in London, included -

(a) analyses of applications made direct to the U.K. Control for currency payments on behalf of other Sterling Area members; and

(b) forms relating to exports from non-U.K. members of the Area where proceeds were received in the U.K., both sterling and currency.

All this material was of great value in the preparation of balance of payments estimates.

The following deficiencies in the statistical information available in London of local currencies were not considered serious:

(a) analyses of payments made to non-residents in local currencies, and

(b) local currency balances held by non-residents.

It was assumed that changes in such balances were inconsiderable - that a non-resident receiving local currency almost immediately turned it into London sterling.

Eire

Exchange of views began, a year before the war, with a visit to the Bank (9.9.1938) by Mr.Brennan, Chairman of the Irish Currency Commission, and proved a complicated business, the eventual outcome of which, however, was satisfactory. Discussions passed through stages at which the Eire Government by turns wished to add to their reserves of gold and/or U.S.dollars; to provide foreign exchange against Free State currency (the Irish banks' custom, of course, was to buy exchange in London); and to convert part of their sterling into dollars to acquire raw materials in the event of war, including an endeavour to persuade the Irish banks to advance the Government £5 million on bills for the purpose (which the banks thought the Government should finance themselves).

At the end of August 1939 uncertainty about Eire's political intentions in case of war were still holding up agreement on final arrangements for exchange control. Control, in fact, came in by degrees and was the result of discussion much of which appears to be unrecorded. On the day after war was declared the Treasury noted that Eire was about to follow Regulations (2) and (3) of the D.(F.) R., though she did not want to requisition sterling securities or prohibit the export of Eire notes (convertible, of course, into sterling in the U.K.). There was further delay over Regulations (1), (4), (5) and (7).

The delay in putting the Regulations into force held up the appointment of the Irish banks as Authorised Dealers,* and for a short time these banks could not buy foreign exchange. Eventually the Eire Control (Ministry of Finance) issued their own Regulations, following the D.(F.) R. fairly closely (after consultation, of course, with H.M.Treasury).

Periodical visits by the officer in charge of the Glasgow Control (see also account of this office under "Control in Practice") did much, once the idea was accepted, to settle

questions

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*The Bank had decided (31st August) to appoint only banks with Head Offices in Northern Ireland. Shortly afterwards the Northern Irish branches of the Bank of Ireland were added. (All Irish banks were included in the revised list of Authorised Dealers issued in July 1945).

questions of interpretation, general understanding and application of principles.

Statistics similar to those supplied by other Local Controls were also regularly received from the Control in Dublin; and the Minister of Finance (through H.M.Treasury) was from time to time approached on questions of detail. But there was perhaps less thorough understanding of these figures than of the majority of Local Control statistics, largely because of lack of opportunity for direct consultation with their compilers. In consequence they were of rather more limited use in the quarterly estimates of Eire's balance of payments, several of the purely financial items (Capital Account) in which had to await yearly publication in the Irish Trade Journal. Interpolations could thus be nearly two years out of date.

Northern Ireland

Regular visits to the Belfast Office by representatives of the Glasgow Control began in October 1940, and contact between the latter and banks in Northern Ireland are described in the account of the Glasgow Control given in the chapter on "Control in Practice".