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It will be convenient to divide into separate headings the remarks to be made on certain securities and other matters. This may be prefaced by a brief review.

Just before the outbreak of War, namely on the 29th July, 1914, the value of the Bank's Government and Other Securities (excluding "Unproductive Securities", Discounts and Advances) stood at just over £50 millions - 3/5ths being Government Securities. Apart from Ways and Means Advances, the first of which was made on the 7th August and which are dealt with separately, the first financial assistance given by the Bank to the Government was on the 22nd August when £12,150,000 Treasury Bills appear in Government Securities. This item rose to nearly £21½ millions by the end of August, but thereafter decreased and was extinguished temporarily on the 23rd November. On the following day there is first seen a figure for 3½% War Loan, of which the Bank had to take up so large an amount.

On the 20th August, in accordance with the usual half-yearly practice, certain adjustments were made in the valuation of the Bank's securities. The writing down, however, was mostly quite small, except in the case of 2½% Consols Stock; between August and

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the end of the year this Stock was reduced from 72½ to 62½ at a cost of some £1,900,000.

As soon as the 3½% War Loan had been floated and the Bank found that they had to take up an enormous subscription, it became their policy to dispose of all their securities other than Government issues, and even of their pre-War holdings of some of these, in order to conserve their resources and be able to place them wholly at the disposal of the Government. Sales were gradually effected during 1915-1916, by the end of which year pre-War holdings had been reduced to a very small figure. Some of these sales were effected at a loss, others nominally at a profit, but as large sums had been appropriated to depreciation in these two years, such profits as were realised were only in the nature of a reduction of loss. A few instances may be given of the considerable writing down of the prices of securities in the Bank's books.

Among the earlier holdings, Local Loans Stock was reduced from 83 to 54.10.10; Metropolitan Water "B" Stock from 77½ to 55; Guaranteed 3% Stock from 78 to 54.10.10 and 2¾% Stock from 72 to 50. Transvaal 3% Stock, 1953, was reduced from 86½ to 63.3.2 and the 1958 issue from 85 to the same figure (Bearer Certificates being further reduced to 60).

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Among Railway Stocks, South Eastern Railway $3\frac{1}{2}$% Debenture Stock was written down from $85\frac{1}{2}$ to $58\frac{1}{3}$; North Eastern 4% Preference from 98 to $66\frac{2}{3}$, East Indian Railway $3\frac{1}{2}$% Debenture Stock from 81 to 55; and Bengal-Nagpur 4% Debenture Stock from 96 to 65. As regards Colonial Securities, New South Wales $3\frac{1}{2}$% 1930-50 and Queensland $3\frac{1}{2}$% 1945 were written down from 87 to 70 and New Zealand $3\frac{1}{2}$% 1940 from 89 to 70.

A very great increase in the Bank's investments took place during 1915, the maximum "Return" date figures being

Government £71,607,910 (in the last two Returns of July)

Other £161,525,798 (on the 14th July).

These figures exclude Bank Borrowings and "Depreciation in Other Securities". The former stood at £73,687,650 on the 14th July.

The increase was mainly due to the Bank's subscription to the $3\frac{1}{2}$% War Loan and to the Exchequer Bonds issued by tender in March.

By mid-February 1915 the $3\frac{1}{2}$% War Loan stood at some £$20\frac{3}{4}$ millions, a sharp rise of £6 millions being responsible for the transfer on the 17th February to "Other Securities" of some £6 millions of securities merely "guaranteed" by the British Government. In the following

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week, the War Loan holding was divided between Government and Other Securities, £18 millions in the former and £13 millions in the latter, and the guaranteed securities were reinstated among the Government holdings, with one exception. This was the "Receiver for the Metropolitan Police District" (£90,000) which remained thereafter among Other Securities, and was joined there by the 3% Debenture Stock in June.

In the Return of the 14th July the cost of 3½% War Loan reached its maximum, being £33,008,955 in "Government Securities" and £106,725,393 in "Other Securities". (Nominal total £146,023,228.)

In the same Return the 4½% War Loan was first included.

On the 3rd August all but £69,000 of the 3½% War Loan disappeared from the figures, being cancelled by the Government, as explained later. At the same time, of some £52 millions short-dated securities, about half was transferred to "Government Securities" (being Roumanian, Greek and a part of Russian Government Treasury Bills). On the 26th August appeared the "Agreed Debt"; early in September the balance of the Bank's Consols was converted into 4½% War Loan; and on the 27th October "Investments o/a Bank Borrowings" were recorded for the first time.

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In 1916 nothing perhaps calls for comment apart from matters referred to under the separate headings that follow. But in view of the large sales and other alterations made in the Bank's investments in this and the previous year and five months, the whole effect of which changes was now visible, it will be of interest to compare the Bank's securities (apart from "Discounts", "Advances" and "Unproductive") as they stood at the end of July 1914 and at the end of the year 1916.

	29 July 1914	27 Dec. 1916
Government	£29,455,126	£75,637,707
Others	£20,581,602	£88,672,775

These totals were made up as follows -

	29 July 1914	27 Dec. 1916
Government		
Government Debt	£11,015,100	£11,015,100
£2:^{s}10/-% Consolidated Stock	7,316,920	Nil
Exchequer Bonds	322,983	4,748
Local Loans £3% Stock	1,094,798	Nil
£2:^{s}10/-% Annuities	368,323	"
Crown Annuity, by Letters Patent	9,395	"
Guaranteed £3% Stock	528,528	7,701
Guaranteed £2:^{s}15/-% Stock	1,499,040	740,531
Carried forward	£22,155,087	£11,768,080

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Government (contd.)	29 July 1914	27 Dec. 1916
Brought forward	£22,155,087	£11,768,080
Transvaal Stock 1953 & 1958	3,674,058	1,509,009
Turkish Guaranteed £4% Bonds	1,924,461	v. Other Secs.
Egyptian Guaranteed £3% Bonds	1,070,876	495,722
Greek Guaranteed 2½% Stock and Bonds	38,500	Nil
Metropolitan Police £3% Debenture Stock	163,811	v. Other Secs.
Metropolitan Police District, Receiver for the	93,333	
Constantinople Quays Company	335,000	335,000 (to Other Secs. Feb. 1917)
4½% War Stock		18,655,896
Treasury Bills		21,874,000
Ways and Means Advances		21,000,000
	£29,455,126	£75,637,707

Others	29 July 1914	27 Dec. 1916
India £3% Stock	£49,416	Nil
India £3½% Bonds	77,057	"
Indian Railway Guaranteed Bonds and Stock	1,423,855	£532,724
Colonial Government and Municipal Securities	*7,358,744	174,975+
Carried forward	£8,909,072	£707,699

*Largely Canada and New Zealand.

+Canada only.

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Others (contd.)	29 July 1914	27 Dec. 1916
Brought forward	£8,909,072	£707,699
Foreign Government and Municipal Securities	*1,180,709	1,552,608+
Corporate Bodies	3,063,858	679,556
British Railway Bonds and Stock	331,392	7,153
Miscellaneous Securities	x2,533,490	77,602
Short-dated Securities	4,081,256	61,346,000
Purchase of Premises, Branch Banks	264,959	Nil
Purchase of Premises, Princes Street and Old Jewry	216,866	
Investments o/a Bank Borrowings (Treasury Bills)		137,626,000
American Securities Special Account		7,293
Bank Borrowings		106,955,250
Depreciation in Other Securities		6,361,300
	£20,581,602	£88,672,775

*Egyptian, Turkish, Japanese, Danish, Chinese and Belgian.

+Included £1,254,353 Turkish 4% Guaranteed.

xChiefly Metropolitan Water Board, Mersey Docks and New York Central Railroad.

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This comparison shows to how great an extent the Bank's pre-War securities had been reduced and how much larger were the War issues which replaced them. There is an enormous increase in the totals, the figures for 1916 being more than 3 times as large as those of July 1914, even after deduction of some £113 millions of Bank Borrowings, etc.

The process of reducing investments to a few big holdings of Government Bills and Stocks was continued during the rest of the War period and by the Spring of 1917 the investments consisted of little else, with the exception of some £3 millions of Foreign and Colonial securities. On the 2nd July 1917 the 4½% War Loan holding was converted into 5% War Loan 1929/47. On this occasion, for the first time, the Bank were not called upon to subscribe fresh money to the new issue.

The process of reducing the number of the Bank's investments while increasing their amount continued through 1918 and most of 1919. At the end of October in the latter year National War Bonds made their appearance, the holding of 5% War Stock being reduced by amounts corresponding roughly with the increase in the new Bonds. At the end of 1919 5% War Loan stood at £8 millions odd and National War Bonds at about £3½ millions.

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In June 1920 the respective figures were £6 and £5 millions and at the end of that year they were about £4,871,000 and £5,268,000. Some Exchequer Bonds were also acquired during this year.

The following table shows the amount of hidden reserve at the end of August, 1921. It will be seen that after writing up Premises this comes to the considerable figure of £4,880,000. But the amount contributed by the Bank themselves towards reducing the book value of the securities, which was the main factor rendering possible the formation of such a reserve, was over £6¼ millions, and there would therefore have been a <u>net</u> loss to the Bank of nearly £1½ millions on realisation of their investments at the end of the War period.*

In addition to the securities valued as on the 31st August there were -

	Cost in Books	
Government Debt	£11,015,100	
Treasury Bills	£21,725,000	
5½% Treasury Bonds	£1,074,856	(acquired during August 1921)
Corporate Bodies	£188,008	
Constantinople Quays Co.	£335,000	
Sundries	£100	
French Government Bills	£65,000,000	
Premises	£400	

*This estimate, it will be observed, leaves out of the calculation all intermediate sales.

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	Price 31/8/21	Nominal	Value at 31/8/21	Value in Bank's Books 31/8/21
5% War Stock 1929/47	88¼*	£5,000,000	£4,412,500	£3,070,905
Exchequer Bonds				
5½% 1925	100⅜	936,900	940,413	929,655
5% 1922	99 15/16	300,000	299,812	300,016
5½% 1925 (or on 1/2/1922/4)	100¼*	2,250,000	2,255,625	2,232,328
National War Bonds				
5% 1927	98 5/16	1,000,000	983,125	700,000
5% Ser. II 1928	97 11/16	400,000	390,750	280,000
5% Ser. III 1928	97⅝	600,000	585,750	420,000
5% Ser. IV 1929	97½	500,000	487,500	350,000
3½% War Loan	86¼	1,264,053	1,090,245	884,837
4% Funding Loan	71 1/16	1,000,000	710,625	605,570
3½% Conversion Stock	61⅞	10,850,000	6,713,437	5,213,477
Indian Government 7% Stock	104½*	100,000	104,500	99,172
Belgian 3% Bonds 1914	62*	375,000	232,500	150,000
Liverpool Stock Exchange Buildings 3% Mort. Deb. Stock	say, 53	110,000	58,300	44,000
		£24,685,953	£19,265,082	£15,279,960

*From Stock Exchange Official List. Rest from average prices, as certified by the Bank's Brokers daily at 1 p.m., with exception of the Liverpool Stock Exchange Debenture Stock.

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VALUE 31st August, 1921, say		£19,265,000
Bank's Books Value say		15,280,000
	Difference	£3,985,000
Plus Premises Amounts written off during the War, say		895,000
		£4,880,000

But, contributed by Bank: (to nearest £1,000):-

Consols, 4½% War Loan and 5% War Loan	£3,838,000	
Exchequer Bonds and National War Bonds	667,000	
Funding Loan and 3½% War Loan	250,000	
3½% Conversion Loan	823,000	
National War Bonds converted	586,000	
Belgian 3% Loan and Liverpool Stock Exchange	181,000	6,345,000
Difference		£1,465,000

3½% War Loan

Before the issue of the Loan, which was for £350,000,000, the Bank of England and other Banks agreed to apply for £100,000,000, the Bank's share being £39,498,200. The public, however, only took up £91,054,500, and of the balance a further £113,525,900 had to be subscribed for by the Bank of England, this

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being the only alternative to the damaging admission that the Loan had been considerably undersubscribed. The Bank, of course, did not contemplate holding the Stock for any length of time, and it was orally agreed between the Governor and the Chancellor that the Treasury should "take over" the amount held by the Bank as soon as they were in a position to do so. The additional Stock taken by the Bank was inscribed in the personal names of the Chief Cashier, and Deputy Chief Cashier, an Advance being made to them for the purpose. This device was resorted to in order that the figures should swell "Other Securities" instead of "Government Securities".

The question of the disposal of the Bank's holding was apparently not again raised until the middle of 1915. In the middle of July in that year, the total holding was £148,773,228:13: 4 Stock, and on the 21st July, the Treasury offered to purchase for cancellation £100,000,000, payment to be made at the rate of £94:17: 6 per cent., plus accrued interest, and on the understanding that the arrangement should be without prejudice to the terms of any final settlement. The Bank agreed to this purchase, which was effected on the date mentioned.

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One of the complications in arriving at a settlement was that the Bank, with the approval of the Treasury, had delayed making payment of some of the earlier instalments. In respect of these, therefore, the Treasury were entitled to claim interest. The Treasury asked the Bank to formulate their own proposals for the terms under which they were to be relieved of the balance of the War Loan. It was the Governor's impression that the Treasury would naturally take over the Stock at its issue price and pay the full interest rate of 3½%. The Treasury, however, submitted other suggestions, under which less favourable terms would have been granted, arguments being put forward by the Chancellor, Mr. McKenna, to the effect that if the Bank had not been burdened with the Loan, the Exchequer would have had to borrow from the Bank sums approximately equal to those actually received on account of the 3½% War Loan, less the excess of the Exchequer balances over say, £20,000,000, after the middle of March, 1915. This excess had been considerable, and it had earned no interest.

It was finally arranged, on the 3rd August, 1915, that the Bank's holding should be surrendered for a sum representing its actual cost to the Bank, and that as interest there should be paid an amount (£1,626,135:14:10)

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equivalent to 3% per annum upon the cost as paid. The Stock was taken over and cancelled under Section 1 (5) of the War Loan Act, 1915.

There remained undealt with £69,000 3½% War Loan, purchased between 20th and 26th July, 1915, by arrangement with the Chancellor of the Exchequer, to support the market. This had inadvertently been left out of the settlement. It was arranged, in August, that this should be acquired by the National Debt Commissioners at cost price, interest being paid at 3%.

With the exception of £5,000 Bonds held between April and August, 1916, the Governor and Company acquired no more 3½% War Loan until 1920. Between June and November of that year, because of the default of some of the persons to whom the special Advances had been made, they received Stock to the nominal total of £1,264,052:12: 8. This was still held at the end of August, 1921. It was written down to 75 in August, 1920, and to 70 in February, 1921.

3% Exchequer Bonds 1915-1920

When these Bonds were offered to public tender in March, 1915, the Bank were forced to take up no less than £37,856,300, in order to render it possible to

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reject all tenders based on a 4% or higher rate. The holding was taken up at the average price of the allotment, viz. £95:17: 1.2%. It was however reduced within a few weeks to £18,340,300 chiefly by sales to the Currency Note Redemption Account, the National Debt Commissioners and the India Office. Under Treasury Minutes of the 4th, 6th and 11th August, 1915, the Government took over this balance at cost, paying also interest at 3% on its cost to the Bank.

American Securities "Special Account"

By July 1915 the Government had realised that it would be necessary to increase their resources in America by the purchase and remittance of American securities. A beginning was made through the Bank of England on the 22nd July, the Bonds and Shares so acquired being at first held among the Governor and Company's securities until taken over by the Treasury. The total cost of the securities so acquired and held was under £3,400,000 and the maximum figure at any one time outstanding in the Bank's books was £922,856 (on the 27th July 1915). As the needs of the Government for dollars increased, it became impossible for the

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Bank to hold themselves the large purchases which became necessary, and the Government paid for the securities as they were acquired. The total purchased prior to the formation of the American Dollar Securities Committee was $233,000,000 (nominal).

On account of the delay in executing various contracts, the Bank's American Securities "Special" Account, though reduced to a balance of about £10,000 after January 1916, was not finally closed until the 28th June 1917.

Short-dated Securities (other than British Government Securities)

Just before the outbreak of War, these amounted to a little over £4,000,000, of which the largest single holding, £1,150,000, was in Sterling Bills of New York City. There were some twelve other holdings.

By the middle of November the total had dwindled to about £1,000,000 and a week or so later appeared a new holding of foreign Government Treasury Bills,* in the

*The Bank had previously held Foreign Government Treasury Bills, e.g. Belgian Government Bills (1912 to November 1914), Italian Government Bills (January 1914 to March 1915) and Japanese Government Bills in 1913.

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shape of £3,000,000 Russian Bills. These rapidly increased in amount and in the (Bank Return) figures of the 25th August, short-dated securities reached their maximum for 1915, made up as follows:-

Russian Bills	£60,579,000
French Bills	245,000
Roumanian Bills	5,000,000
Greek Bills	495,000
Italian Bills	9,480,000
Victoria (B.C.) Bills	40,000
	£75,839,000

Of these items the Roumanian and the Greek, together with £20,000,000 of the Russian Bills, had been included in Government Securities since the 4th August, in anticipation, perhaps, of their being taken over by the Treasury. The amount of the Russian Bills of which the Government relieved the Bank under the "Agreed Debt" arrangement was in fact much more than £20,000,000; it was £56,509,000.

The Italian Bills first appeared at the end of July and rose to £43,360,000 by February 1916; at the end of which month Short-Dated Securities reached their

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maximum for the War period, viz. £78,746,000. This total was made up almost exclusively of Italian and Russian Bills. From mid-April, however, there were no Italian Bills; the securities consisted exclusively of French and Russian Treasury Bills, the latter being a small figure thenceforward, as the Treasury had taken over a further £24,830,000 in March and early in April.

The Bills held in mid-April were only some £2,000,000 altogether. The French Bills then increased steadily, until May 1917 when they amounted to the full £72,000,000 permitted under the "Exchange" Agreement between the Bank of France and the Bank of England (vide Chapter IV). Russian Bills were then £1,409,000. No further change took place till the end of February 1918 when the Russian Bills were taken over by H.M. Treasury. The £72,000,000 French Bills were reduced to £65,000,000 in January 1919 and were unchanged at that figure on the 31st August 1921.

Whereas the Bills of the other Governments were for the most part discounted by the Bank pending the ability of the Treasury to do so themselves, the French Bills were on a rather different footing. They were discounted under the agreement of the 25th April 1916 (modified in the following August) between

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the Bank of England and the Bank of France, and the Bills discounted remained in the hands of the Bank, who also received the full discount.

"The Agreed Debt"*

During the first year of the War the Bank had incurred various foreign obligations on behalf of the Government, chiefly on pre-moratorium Bills and in advances to foreign Governments. At the beginning of August 1915, a settlement having been arrived at in respect of the 3½% War Loan taken up by the Bank, and the Exchequer Balances standing at over £100,000,000, the Bank considered the opportunity to be favourable to a further liquidation of the Government's indebtedness to them. They therefore approached the Treasury on the subject, and on the 13th August, received the latter's proposals. These were -

(1) that the Exchequer should pay to the Bank the outstanding capital of each advance as on the date of taking over, plus accrued interest as from the date of the advance at the rate which it had been agreed that the Bank should retain, less the amounts payable by the Bank to the Exchequer under those agreements in respect of interest already received.

(2) that as from the date of transfer, the Bank should account to the Exchequer for all receipts in respect of both interest and repayments, the Bank to receive such remuneration for its services as might be arranged.

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*Vide also Chapter. IV: Allies' Borrowings.

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Where advances had been made by way of discounting Bills, it was suggested these should be re-discounted for the Exchequer at the original rates, the Bank to account for any excess of the discount beyond the expired period over the amount they were entitled to retain.

On the 18th August, the total amount of the debt stood at £109,605,040:12: 8. This sum was made up as follows:-

Amounts advanced to Foreign Governments		£69,675,384: 2: 2
Advances on Pre-Moratorium Bills		38,596,189:12: -
Advances on Post-Moratorium Bills		32,047: -: -
Discounted Bills unpaid (H.O.)		75,771:14: 3
Discounted Bills unpaid (Branches)		3,498:12: 8
Advances under Treasury Scheme (S/E)		197,283:10: -
$\frac{4}{7}$ths of Interest on Pre- and Post-Moratorium Bills £1,021,953: 2:11		
Less transferred to Capitalised Interest	794,687:17: 7	227,265: 5: 4
Capitalised Interest on Advances on Pre- and Post-Moratorium Bills		794,687:17: 7
Interest on Discounted Bills unpaid (H.O.)		2,595: 5: -
Interest on Discounted Bills unpaid (Branches)		123: 3: 2
Interest on Advances under Treasury Scheme (S/E)		194:10: 6
		£109,605,040:12: 8

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The first item was composed of £56,509,000 Russian, £6,640,000 Italian, £5,000,000 Roumanian and £490,000 Greek Treasury Bills, with interest accrued.

The first instalment of the repayment of the debt, £20,000,000, was issued to the Bank of England on the 18th August, and it was arranged that further amounts of £10,000,000 should be paid off weekly, so far as practicable, but that the whole debt should be discharged not later than the 20th October.

An item representing so much of the debt as was then outstanding appeared for the first time in the Bank's investments, under the title of "Agreed Debt", on the 26th August, £25,490,000 being allotted to "Government Securities" and £51,574,043:15:11 to "Other Securities".

The whole of the Agreed Debt was discharged as arranged by the 20th October. The Bank, however, continued for some time to make further advances in the form of discounting foreign Treasury Bills, and from time to time the Government took over the holdings so acquired.

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Treasury Bills

Treasury Bills were of course largely held by the Bank during the War, but until the Spring of 1917 comparatively small amounts only were entered under that heading or even among "Government Securities." The bulk was kept under the title "Investments o/a Bank Borrowings" and among "Other Securities". In so far as Investments o/a Bank Borrowings bore close relationship to the amount of Bank Borrowings, there would of course have been no reason why both should not have appeared under "Government Securities"; but in point of fact the amount of such investments was often many millions in excess of the Bank Borrowings' total; hence it was considered necessary to exclude these investments from "Government Securities".

The Investment Account was opened on the 27th October 1915 with £4 millions of 1 and 3 months' Treasury Bills. Subsequently 6, 9 and 12 months' Bills were also held (but no other security).

During 1915 the total of the Treasury Bills in the Investment Account was less than the amount of Bank Borrowings, with the exception of one or two occasions in December. The maximum was reached on the 22nd December when the Investment Account stood at £57,621,000, Bank Borrowings being £56,686,700.

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At the beginning of January 1916 the Investment Account margin over Bank Borrowings increased to more than £6,000,000, but soon afterwards, and during February and March the Bills rapidly decreased and became very much less in amount than the Borrowings. The minimum Investment figure was reached on the 8th March when only £504,000 Treasury Bills were held, although Bank Borrowings were nearly £32 millions. In April, however, the Bills were nearly twice the amount of the Bank Borrowings and thereafter exceeded Bank Borrowings until the end of the year by amounts varying from £10 to £37 millions. On the 27th December the Treasury Bills were £137,626,000 (maximum for the whole period) while Bank Borrowings were nearly £107 millions.

Soon after the beginning of 1917 Treasury Bills fell below Bank Borrowings and did not again exceed them. On the 21st February the Investment Account was closed and Treasury Bills, £97,301,000, appeared in Government Securities, an addition to the Bank Borrowings deducted therefrom being made to mitigate the effect on the published figures.

From this time Treasury Bills were held almost continuously, but in moderate amounts. In 1917, indeed, their total did not exceed £16 millions. In 1918 the

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figure had risen by April to over £100 millions, round about which figure it remained to the end of the year. In 1919 small amounts were held, the total having dropped to under £15,000,000 by July. (In that month Ways and Means Advances reached £646,000,000, though off-set to the extent of £527,000,000 by Bank Borrowings.) At the end of 1919 about £36¾ millions was held, which was the maximum since March. In 1920 the total varied between £10 and £40 millions until the beginning of August, when it rose a little for a short period and afterwards declined, the maximum in the later months being about £25½ millions. Throughout 1921 Treasury Bills remained under £40 millions and on the 31st August were £21,725,000.

One Month Bills

These were not issued to the Public. Some were held by the Bank in "Government Securities" between November 1915 and April 1916 - maximum £14 millions. Large amounts were included in the Investment Account o/a Bank Borrowings between October 1915 and October 1916, the maximum so held being £66½ millions at the end of June 1916.

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Government Securities among "Other Securities"

For considerable periods during the War years, the distinction between Government Securities and Other Securities was partly obliterated in the Bank's books. The reason for this was the expediency of disguising on occasion the fact that the Bank of England had been obliged to take up large holdings of Government Securities.

As regards the various adjustments, Lord Cunliffe wrote to the Chancellor on the 21st February 1918 as follows -

"I have, as you know, in connection with the "yearly return to Parliament, been looking into the Bank's "investments during the War in Government Securities and "I have some doubt whether our large subscriptions to the "3½% War Loan and the 3% Exchequer Bonds were not 'ultra "vires'. They were, however, most necessary in the "public interest at the time, and so was their inclusion "among our 'Other Securities'. With regard to the latter "point Mr. Lloyd George, who was then Chancellor of the "Exchequer, actually promised me a letter of indemnity, "but the letter was afterwards found unsigned on the desk "of Mr. Hamilton, then as now Secretary to the Chancellor. "Mr. Lloyd George will I am sure remember the circumstances,

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"and I should be very much obliged if, before I vacate "the Governorship on the 26th of next month, you would "let me have a line undertaking to apply to Parliament, "if requested, for an indemnity both for the Bank's pur- "chases of those investments and for the inclusion of "these and certain large lines of Treasury Bills among "their 'Other Securities'."

A satisfactory assurance was received from Mr. Bonar Law, the then Chancellor, dated the 12th March 1918 (vide C.C.P. File 71^B - 121).

"Depreciation in Other Securities"
or
"Reserve against Depreciation"

The titles of this account are somewhat misleading, since the sums transferred thereto were neither applied, nor intended to be applied, to the writing down of the value at which the Bank's securities stood in their books. The object of the account was two-fold; it was partly used to reduce the published figures of the Bank's "Other Securities", and was partly of advantage in withdrawing from Other Deposits a portion of the Bank's hidden reserves, thereby raising to some slight extent the figure of the Proportion.

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The account was opened on the 12th March 1915 with £513,589: 6: 8. Of this sum £178,568:13: 6 was transferred from "Suspense Account, Llanelly Harbour Trust" (to be held against any loss in connection with Advances made to the Trust) and the balance from "Unappropriated Profits". Additions and subtractions were made to and from the account as and when required; the account, however, was always closed at the end of the Bank's half-year (that date not usually coinciding with the date of the published Return).

The maximum figure reached was £7,418,308:10:8 on the 6th March 1918.

By August 1919 the necessity of adjusting the Bank's Returns in this manner was presumably considered to be no longer existent, for on the 23rd August the account was finally closed.

At each half-year the money had been transferred to "Unappropriated Profits", or to the same fund under its later title of "Suspense Account, No. 1", a change made by Order of Court dated the 24th October 1917.

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4½% and 5% War Loans

4½% Loan

Although about £600 millions of new money were obtained by this Loan, the figure included £183 millions subscribed by the Banks, of which the Bank of England took £14,000,000.

After selling some rights and a small amount of Stock the holding was increased by £6,634,869: 1:10 by the conversion of the Bank's Consols. The total was then written down to 97 at the end of August 1915, to 96 in February 1916 and to 90 in the following August.

On the 2nd July 1917 the holding, increased to £20,928,772:17: 5 by two or three transactions, was converted into £22,030,149:10:10 5% War Stock 1929/47.

5% Loan

This holding was written down to 80 in August 1917. An addition of £7,749:19: 6 was made in February 1918, but from October 1918 to June 1921 sales took place at prices ranging from 85 to 96$\frac{5}{16}$ reducing the balance held at the end of August 1921 to £5,000,000. In June 1921 £813,375 the difference between the sum realised by a sale at 88 of £3,000,000 Stock to the Currency Note

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Redemption Account and its value at £60:17: 9 the price at which, owing to profitable sales, 5% War Stock then stood in the Bank's books, was transferred to reduce the cost of £4,500,000 3½% Conversion Stock purchased on the same day. Yet the balance of the 5% War Stock stood at under 61½ after this transaction.

National War Bonds and Conversion Loan

From October 1919 onwards, the Bank acquired £6,900,000 National War Bonds of various maturities, of which £3,900,000 were converted in May 1921 into £6,301,500 3½% Conversion Loan 1961. In February nearly £493,500 had been applied to writing down National War Bonds from 90 to 70.

The Conversion Loan was increased from time to time and by the end of August 1921 amounted to £10,850,000.

Premises

Branches

Before the War, the Branch Bank Premises had been allowed to stand at a substantial figure, which was being reduced at the rate of £10/15,000 a year. The

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amount in July 1914 stood at £264,959. Before the end of March 1915 the whole of this was written off.

Princes Street and Old Jewry

Similarly the Princes Street and Old Jewry Premises, standing at £225,186 before the War, were written down to nothing by May 1915.

"Premises - Freehold and Leasehold"

On the 24th August 1920 £100 was taken for all the Bank's Premises at that time existing. Hence, not only were the Branches and Princes Street and Old Jewry Premises given a nominal valuation, but also, for the first time, the Head Office was included.

Bankers' Clearing House*

At the end of 1920, the Clearing House succeeded in purchasing additional premises which had long been needed. These premises were 83, 84 and 85 King William Street. The House had been a Limited Company since 1895, and its capital was held by the Clearing Banks: the Bank of England had never held Shares. On this occasion the Banks decided to subscribe the £300,000 required without making a fresh capital issue. The Bank of England, by their own wish, participated, subscribing £25,000. The

*Information obtained in part from Mr.Salt of the Clearing House.

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"big five" each paid £50,000, and ten Banks in all shared in the subscription. (No dividends are to be paid on these holdings.) The Bank's holding was written down to £100 in February 1921.

Finsbury Offices

The acquisition of the Finsbury Offices led to the appearance among "Other Securities", on the 26th January 1921, of £50,000 Shares and £225,000 7% Debentures of the Finsbury Offices, Limited. The Debentures were payable on demand as from the 30th June, 1922. Further additions to the Debentures were made and at the end of August, 1921, the holding amounted to £330,000. Each of these holdings was at once written down to £100.

The idea in forming the Company was to make the investment take a form perhaps more easily marketable eventually than might otherwise have been the case.

Turkish Guaranteed 4% Bonds & London County Consolidated Stock

At the beginning of the War the Bank held £1,943,900 of the Turkish Bonds.

In April 1915 on the Public Trustee asking that some arrangement should be made whereby the balance of his

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Trading with the Enemy Account might earn some interest, the Governor consented to these funds being invested temporarily in Turkish Guaranteed 4% Bonds. £460,000 of the Bonds altogether were thus sold to the Public Trustee at the nominal price of 100; the balance of the holding being transferred to "Other Securities" in May.

The arrangement was extended to include the purchase at 87½ of £182,857: 3: - 3½% London County Stock, and of £694,805: 4: - 3% Stock at 77. On the 10th August the total sum so invested, £1,155,000, was refunded. Interest accrued and was paid to the Public Trustee at 3% on the money actually invested. The Bank resumed possession of their securities and the funds at the disposal of the Trading with the Enemy Account were invested in Treasury Bills, (obtainable from the 9th August at the fixed rate of 4½%).

The Turkish Bonds were written down to 80 in August 1915 and in the following February to 66⅔. During 1916 a few were sold and a varying part of the security was held among "Government Securities" in July and August. In August 1917 they were written down to 60 and during 1917-18 were disposed of at prices varying from 72½ to 80.

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The London County Stocks were also gradually sold, the last sales taking place at the end of 1916 and the beginning of 1917.

Securities held in the Issue Department

Government Debt	£11,015,100
Other Securities	7,434,900
	£18,450,000

The Other Securities were made up from time to time of Consols, 3½% War Loan, 4½% War Loan, 5% War Loan, a part of the Colonial Guaranteed Stock, and Treasury Bills.

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"GOVERNMENT SECURITIES" AND "OTHER SECURITIES"

BANK BORROWINGS.

Prior to the War, the Bank of England lent money to the market through Messrs. Mullens, Marshall & Co., on behalf of Customers, but the practice was discontinued after the outbreak of the War. Instead, the Bank borrowed the money themselves for periods of three days up to one month, a distinction being made, in regard to period and rate, in favour of Customers who kept a 'sole' account with the Bank.

Starting from February 1915, money was taken in from the India Office and shortly afterwards from Messrs. Baring Bros. & Co., Ltd.; in the latter case the money arose chiefly from funds of the Russian Government obtained from the British Treasury by discounting Russian Government Treasury Bills, the money being temporarily employed in this manner. Further, in connection with an arrangement carried out by the Bank of England for the support of the American Exchange, large sums of money were received during the first half of the year 1915 in respect of sterling purchased in New York. In order to effect these purchases, dollars were borrowed in New York and the sterling realised in London was included in the total of "Money borrowed". On the liquidation of the dollar loan in the second half of the year, the sterling was repaid from "Money "borrowed" and used either to meet exchange sold in New York or to pay for gold sent from London or Canada to New York.

In March 1915 and onwards, owing to the

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superabundance of money and the lowness of rates, money was also borrowed from the Clearing Bankers; from this cause and from the causes mentioned in the preceding paragraph the total of the money borrowed reached a figure of about £74 millions in June 1915, falling at the end of the month to £57 millions in connection with heavy withdrawals by the Clearing Bankers for balance sheet purposes. After the turn of the month the figures rose again. reaching £77 millions in the middle of July, when £70 millions was withdrawn in a fortnight (£54 millions in one day) in connection with the first payments on the 4½% War Loan 1925/45. From that time until October, the borrowings did not exceed £17 millions outstanding on any day, but towards the end of October the figures increased rapidly as, shortly before the final payment on the 4½% War Loan, it was decided to extend the facilities, hitherto almost exclusively granted to Clearing Bankers, to United Kingdom, Indian and Colonial Bankers, and also to certain other Bankers not coming within these categories if specially approved in each case by the Governor.*

*The following letter from the Commonwealth Bank of Australia throws some light on the reasons for this extension:-

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The periods for which money was borrowed from Bankers varied from "call" to one month, a certain amount being borrowed exceptionally at one period for three months. While daily sales of Treasury Bills at

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COMMONWEALTH BANK OF AUSTRALIA,
36-38 New Broad Street,
London, E.C.
27th August, 1915.

The Rt.Hon.Lord Cunliffe,
Governor, Bank of England, E.C.

My Lord,

As one of the representatives of the Colonial Banks who attended the meeting you were good enough to hold on Tuesday 24th instant, for the purpose of placing before them the reasons for maintaining the rate for Short Loans to the Market at 4½%, I beg to place before you the following considerations.

The meeting, I need hardly say, fully appreciated the grounds, so far as regards public policy and otherwise, for maintaining the money rate in London as stated by your Lordship, but from our own experience since Tuesday, I regret to have to say, that it will hardly be practicable for us to keep our money in the Market if the 4½% rate is insisted upon. The Money Market, I need hardly remind your Lordship, is highly organised and comprises some of the shrewdest and most experienced men in London who are acting individually and through their Committee in complete concert. The Colonial Banks, on the other hand, are so many isolated units, each acting separately, without any attempt at co-ordination, and in consequence, any independent action that may be taken by any bank, could not prevail against the united will of the Discount Market as regards Rates.

From our own experience we find that by charging the 4½% rate some of the Discount Houses, though entirely friendly, tell us that they regret they are unable to use our money at 4½% and in three instances, yesterday, repaid our loans, other Houses doing likewise to-day. To enable them to break through the arrangement, they apparently single out a series of Colonial Banks, whose loan moneys they return and leave on their hands, and they are in a position to do this largely because fixed rates were being made, the rate paid to the Clearing Bankers for money at three days' notice was ½% below the selling rate for three months' Treasury Bills,

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they can, even outside the American Banks, get all they require from the Clearing Banks at 4½% or from the Bank of England at 4% against the old War Loan.

The present basis, therefore, does not appear sufficiently substantial to enable us to adhere to the 4½% rate unless some means can be provided for using our moneys even at a less rate. It suggests itself, that perhaps the Bank of England would consider accepting deposits from week to week at 4½% or even 4% from the Colonial Banks, the Bank employing the money themselves in Treasury Bills, which, at 4½% would give them a margin of profit. If you could see your way to recommend this course, it would protect any individual Bank whose moneys would be returned by the Market merely for the purpose of breaking through the arrangement, while, at the same time, the aggregate amount from the point of view of the Bank of England or the Government would hardly be likely to reach any inconvenient figure, as the Money Market would not have the power to pay off the loans to any indefinite extent. We should be pleased to co-operate, as far as possible, but in view of the further repayments which the Market indicate to us will be made if our rate is maintained at 4½% we shall be glad to know, at your early convenience, whether any funds so returned to us, could be taken by the Bank of England at 4½% or even 4% from week to week or if any other similar method of meeting the united action of the Discount Market can be adopted.

I am, my Lord,

Yours obediently,

(Sgd.) C.A.B.Campion

Manager.

except for a period of about five months when a difference of ¾% was made. The terms offered to Clearing Bankers were more advantageous than those allowed to other Bankers. For instance, during a period of about a year after the arrangement was first made, money was accepted from Clearing Bankers subject to three days' notice of withdrawal, but money was not received from other Bankers for a shorter period than one month; and when, in January 1917, the other Bankers were permitted to deposit money at three days' notice a difference of ½% in favour of the Clearing Bankers was made in the rate and this difference was maintained throughout the period in respect of which the arrangement was in force. The money obtained by the Bank was invested in Treasury Bills or lent to the Government in the form of Ways & Means Advances; in settling, from time to time, the rate of interest to be charged on Ways & Means Advances, the chief consideration influencing the decision was the rate paid by the Bank of England to the Clearing Bankers, and interest on Ways & Means Advances (except for the portion of the Advances to which the two special rates, to which reference is made later, applied) was usually charged at ½% above the latter rate. Another rate directly affected was the rate of interest allowed on deposits by the Clearing Bankers and, except for a period of about 15 months in 1916/1917, the rate which they quoted was the same as that allowed to them by the

Bank of England on deposits of money other than foreign money.

In December 1915 the total borrowingsreached £57 millions falling to £39 millions at the end of the month on account of the usual withdrawals for "window "dressing". The rates of interest allowed to Clearing Bankers in 1915 ranged from 1½% in March to 4½% in October.

In 1916 the borrowings varied from a minimum of £28 millions to a maximum of £107 millions, the latter figure being reached in December. The rate of interest was reduced in March to 4%, raised to 4½% again in June and to 5% in July.

In 1917 daily sales of Treasury Bills were suspended at the beginning of January preparatory to the issue of the 5% War Loan and the borrowings reached a maximum figure for the year of £244 millions at the end of the month, from which date the total fell rapidly to about £40 millions in March, rising to over £100 millions in April and remaining round about that figure until November except for the usual heavy drop at the end of June. The rate of interest was reduced to 4½% in February, 4% in June and 3½% in December.

In regard to the general policy to be pursued by the Bank in connection with borrowings, the following Resolution was passed by the Committee of Treasury on the 23rd March 1917 -

1. "That no money be borrowed from any Bank or "Customer who does not keep and maintain an

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"ample and adequate balance.

2. "That special care be taken that the practice "of paying interest on borrowings be not used "to compete with the Bankers, and it should "be kept well in view that the main object of "the Bank in adopting the system of borrowing "at interest is to keep control of the Money "Market."

The Committee also approved the Governor's policy in the past and his suggestion that it should be continued unchanged in future in lieu of adopting once more the former practice of lending customers money on the Market, which he considered in many ways objectionable.

In November 1917 it was decided, in order to prevent the withdrawal of foreign balances with the consequent further depreciation in the Exchanges, to allow a special rate of interest for foreign money. This course had been advocated in various quarters* for some time past and the very serious falls which occurred during the year in the exchanges, particularly during October, led to the adoption of it, although fears were expressed as to the practicability of the scheme. Questions arose in certain cases as to the interpretation of the term "foreign money", but the

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*Particularly by the Chancellor of the Exchequer, vide Committee of Treasury Minutes 5.12.17.

decision rested with the Bank of England, and in practice it was found that these special cases could be settled without much difficulty.* Money was received in multiples of £25,000 from any approved Bank, Firm or Company having an account with the Bank of England. "Foreign money" was defined as money held by a Bank or Firm in this Country for a foreign (non-British Empire) client+ or for a foreign (non-British Empire) Bank or Firm not having an office in the United Kingdom; it did not include money held for a foreign Branch of the Bank or Firm by whom the money was lent to the Bank. The money had moreover to be at the free disposal of a foreign client having full power to withdraw it from the United Kingdom at any time, to which effect the depositing Banker was required to sign a declaration. The rate of interest allowed was 4½% for money at

*On the other hand, the Governor had resisted the innovation fearing that it might be impossible to exclude what would be in reality home funds, even if the concession were confined (as it was at first) to the Clearing Banks, and that the danger might increase as time went on. As from the 2nd January 1918 the scheme was broadened to include any approved Bank, Firm or Company having an account with the Bank of England. A differential rate was regarded with disfavour by the Committee on Currency & Foreign Exchanges. vide Interim Report, Section 19.

+Whose name had to be disclosed.

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three days' notice.* Very large sums of foreign money were borrowed in this manner, the maximum figure during the year 1918 being £166 millions and during the year 1919 £172 millions.

In January 1918 when the rate of interest on Ways & Means Advances was reduced from 4½% to 4% an agreement was made with the Treasury to cover the period during which the special rate for foreign money was in force, under which interest on Ways & Means Advances was charged each month at 4½% in respect of a sum equal to the average of the daily total of foreign money borrowed during that month; so that in effect the foreign money was borrowed for account of the Treasury.

In February 1918 the ordinary rate for Ways & Means Advances was reduced to 3½%, at which figure it remained practically throughout the existence of the special foreign money rate, with the result that the Treasury paid an extra 1% for that part of the Ways and Means Advances which was represented by foreign money.

Including foreign money, the total of the borrowings reached £136 millions in December 1917, £208 millions in April 1918, £268 millions in June

*On the 1st May 1915 the Governor suggested to the Committee of Treasury that the notice should be extended to seven days, but the proposal was not approved.

and £262 millions in December 1918. The rate of interest for ordinary money was reduced from 3½% to 3% in February, at which rate it remained until the arrangement for receiving money was withdrawn in August 1919.

In October 1918 the United States Government opened an account at the Bank of England in the name of the Treasurer of the United States, with several subsidiary accounts, the accounts being fed partly by the British Treasury against equivalent dollar sums credited in America by the United States Government to the British Treasury and partly by the sale of War Stores, &c. It was agreed that the balances on the accounts from day to day should be borrowed at 2½% by the Bank of England. Interest was charged each month to the British Treasury at 2½% on a total of Ways & Means Advances equivalent to the average of the money borrowed on these accounts.

In January 1919 the Bank withdrew, in the case of French, Belgian and Italian deposits, the special rate of 4½% allowed for loans of foreign money, the exchanges of these Countries being in favour of London.*

The borrowings after falling below £200 millions in February rose above £250 millions early in June, when the daily issues of Treasury Bills

*The Bankers are said to have thereupon offered themselves 3½ - 4% on these deposits. (Bankers' Magazine, July & November 1919) were suspended in anticipation of the issue of the Funding and Victory Loans, and a very rapid increase in the total borrowings took place to £464 millions, only temporarily checked by withdrawals at the end of the month; a maximum of £579 millions was reached on 12th July, after which date a rapid fall took place owing to the resumption of the daily sales of Treasury Bills and to notice being given of the discontinuance of interest on ordinary money received from Bankers. The last of the ordinary money was withdrawn by the Banks on 18th August 1919. At the same time the Bank of England ceased employing their Customers' money in this manner. Instead, the method of investing the money in three months' Treasury Bills was adopted, the Customers being allowed the Treasury Bill rate, less a commission payable to the Bank for agreeing to take over the Bills and to repay the money at the close of any period of 14 days.

In October it was decided that the necessity for continuing a special rate for foreign money no longer existed and notice was given to terminate the arrangement. At the same time the rate for three months' Treasury Bills was raised from 3½% to 4½%. By the 18th October the foreign money had been withdrawn and from this time the borrowings were reduced to quite small figures, being confined to the balances on the accounts of the United States Treasurer, to which reference has been made previously. These accounts were closed on 31st December 1920 and borrowings by the

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Bank ceased simultaneously.

Bank Borrowings were deducted from Government Securities or partly from Government Securities and partly from Other Securities and their effect was thereby concealed to a great extent in the Return. Comments on this system of book-keeping are to be found in the Report of the Committee on the Bank Act of 1844.

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	Bank Rate	T.B. fixed rates					BANK BORROWINGS RATES					DEPOSIT RATES		
							Clearing Bankers			U.K. & Col.		Clg. Bankers	Discount Houses	
		2	3	6	9	12*	3 dys.	1 mth.	For^{n}	3 dys.	1 mth.+		Call	Notice
1914 Aug. 8	5											3½	4	4¼
27													3½	3¾
Sept. 4												3	3	3¼
17												2½	2½	2¾
Oct. 9												2	2	2¼
1915 Feb. 4							Borrowings began Feb. 1915 from India Office, Barings &c. & in March from Clg. Banks. The rates were March 4 1½ Apl. 6 2 July 22 3 Sept. 2 3½ all at 7 days call.						1½	1¾
Apl. 8													2	2¼
14			2¾	3⅝	3¾									
May 8						3¾								
July 22												3	3½	3¾
Aug. 9			4½	4½	4½	4½								
Sept. 2												3½		
Oct. 27			4¾	4⅞	5	5		4½			4½			
Nov. 12			5	5	5	5								
23							4½							
29													4	4¼
1916 Mch. 24			4½	4¾	4¾	5	4				4			
June 16			5	5	5	5	4½				4½			
July 13	6						5				5	4	4½	4¾
14			5½	5¾	-	6								
Sept. 27			5½	5½		5½								

*But few issued after 1916.

+Country, Scotch, Indian, Canadian, Australian &c. having Drawing A/cs. and certain others if approved by Governor.

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	Bank Rate	T. B. fixed rates					BANK BORROWINGS RATES					DEPOSIT RATES		
							Clearing Bankers			U. K. & Col.		Clg. Bankers'	Discount Houses	
		2	3	6	9	12	3 dys.	1 mth.	For^n	3 dys.	1 mth.		Call	Notice
1917 Jan. 4			–	–		–				4½	5			
18	5½													
Feb. 19							–			–	4¾			
26							4½			4	4½			
Apl. 5	5												4	4¼
June 20			4½	4½		4¾	4			3½	4			
July 4			4¾	4¾		5								
Nov. 12									4½					
Dec. 28			4	4		5	3½			3	3½			
1918 Jan. 2							3½	4	4½			3½	3½	3¾
Feb. 15			3½	3½		5	3	3½		2½	3	3	3	3¼
June 5												3	3	3
1919 Jan. 8							Jan. 8 Foreign Money No rate for French Belgian, Italian							
June 1			–	–										
July 15		3⅜	3½	4		4½								
23							Bank ceased to receive fresh deposits from Clearing Banks							
31							–	–		–	–	3	3	3¼
Aug. 16		–												
Oct. 7			4½	5								3½	3½	3¾
18							Foreign all withdrawn by 18.10.19							
Nov. 6	6											4	4	4¼
8			5½	5½										

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	Bank Rate	T.B. fixed rates					BANK BORROWINGS RATES					DEPOSIT RATES		
							Clearing Bankers			U. K. & Col.		Clg. Bankers'	Discount Houses	
		2	3	6	9	12	3 dys.	1 mth.	For^{n}	3 dys.	1 mth.		Call	Notice
1920 Mch. 20				–		5½								
Apl. 15	7		6½			6½						5	5	5¼
30						–								
							*No borrowings after end 1920							
1921 Mch. 12			6			6								
Apl. 21		3 mths. Bills offered to tender												
27						5¾								
28	6½											4½	4½	4¾
June 23	6					5½ (24th)						4	4	4¼
July 1				5½		–								
8				–										
21	5½											3½	3½	3¾
Aug. 31	Official end of the War													

*A very few special issues from time to time at 6%.

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WAYS & MEANS ADVANCES

"And it will follow from hence, that the Bank "will be, in a short time, not only the great, but the "only Lender to the Government. I mean none else will "be able to supply the Government with such large Summs, "as it has frequently wanted, before the Funds upon which "these Summs were to be rais'd cou'd come in."

("Remarks upon the Bank of England"
by a Merchant of London, 1705.)

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WAYS & MEANS ADVANCES.

Until the close of the year 1916 Advances by the Bank to H.M.Exchequer on the credit of Ways & Means retained their pre-War character of purely temporary Advances in anticipation of Revenue. At that time, however, in preparation for the issue in January 1917 of the 5% War Loan the issue of Treasury Bills ceased and Ways & Means Advances consequently had to be taken by the Government in enormous sums, very nearly totalling £300,000,000 in the middle of February, after which date they were quickly repaid out of the proceeds of the War Loan.

In calculating interest due to the Bank on the amount outstanding during the period of accruing receipts from subscriptions to the War Loan, the Bank agreed to "set off" such receipts after a lapse of six working days.

Early in 1917 Ways & Means Advances gradually assumed a much more permanent character. By the summer of that year the total had risen to about £90,000,000, a figure which led the Bank Court on the 5th July 1917, whilst agreeing to advance during the following quarter such sums as might be required for the public services, to impress upon the Chancellor of the Exchequer their anxiety that measures should be taken for the repayment of this floating debt. In the absence, however, of any alternative plan of raising the necessary sums for the War, the Government continued to increase the total of

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WAYS & MEANS ADVANCES

Ways & Means Advances outstanding, which by the close of the year had reached nearly £160,000,000. To render it possible to lend such sums, the Bank were by this time borrowing increasing amounts from Bankers at interest (vide "Bank's Borrowings"), and these funds were necessarily used thereafter as a set off against the Advances made to the Government.

The rate of interest of such borrowings was the chief consideration in settling from time to time the rate of interest to be charged on Ways & Means Advances, such rate being usually ½% above the borrowing rate. From January 1917, when the rate charged was 5% (the statutory maximum), the changes were as follows:-

19th June 1917	to 4½%
1st January 1918	" 4%
15th February "	" 3½%
1st June 1919	" 3 - 3½%
1st August "	" 3½%
7th October 1919	" 4½%
8th November "/ 1st March 1921	" 5%

The close of the year 1917 was not without anxiety both as to the real position and to the effect on the Public of the large increase of Ways & Means Advances which the Exchequer Accounts threatened to show, and to improve the Government eturns the Currency Note Account exchanged part of their Ways & Means Advances for £20,000,000 Treasury Bills and the Bank themselves began taking Treasury Bills at one month. Revised terms came into operation respecting the rate of interest to be paid to the Bank. A special rate (4½%) was now being paid by the Bank on approved "foreign" money borrowed and it was agreed that this rate should be paid to the Bank for an amount equivalent to the foreign balances borrowed from time to time. 4% was to be charged on the remainder until further notice. Later. in November 1918, it was agreed to pay 2½% on U.S.A. Government balances, and, as a set off, a corresponding amount of the outstanding Ways & Means was allowed to run at this rate of interest.

A revised procedure for borrowing from the Bank was now agreed upon, the chief point being that interest would be paid monthly in future.

During 1918 Revenue Receipts enabled the Government to reduce the outstanding amount of Ways & Means by the end of March to a little over £60,000,000, but thenceforward the amount was gradually increased again and reached in June £200,000,000, and between this amount and £150,000,000 the total varied until the autumn when the end of the War was in sight.

The Bank then urged the Chancellor to seize the opportunity of floating a large Funding Loan to absorb part of the unfunded debt (the total by this time of all items coming within this category was some £3,200,000,000) before Peace was declared, it being argued that after the War our position as a debtor instead of a creditor Nation would require high money

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rates; there would be the competition of investment abroad &c. and moreover it was thought that confident anticipation of Peace would probably create a better atmosphere than its ultimate realisation. This advice was not followed and while the Treaty of Peace was under discussion the Bank's Advances to the Government were again, in February 1919, very much on the increase (from £156,500,000 on the 4th February to £211,000,000 on the 28th February), in spite of the fact that this was the season of almost maximum revenue collection and also of the fact that a permanent reduction of this indebtedness - the most potent of all factors in creating the inflation from which the Country was suffering - was agreed to be one of the most pressing needs of the financial situation.

The Public were, at this time, allowing their Treasury Bills to run off and the Bank repeatedly urged -

1. The raising of the existing rate of Treasury Bills (3½%) in order to tempt the Public to increase their holdings, and
2. The making of an early effort to float a large Funding Loan, or any other steps which the Chancellor might prefer, to effect a reduction in the Floating Debt.

At length, in June 1919, the "Funding" and "Victory" Loans were issued and, in preparation for this event, Treasury Bills had been withdrawn at the

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end of May, when Ways & Means Advances stood at about £240,000,000, from which figure they rapidly rose in the circumstances to £690,000,000 early in July, by which time the subscriptions to the Loan began to be used in repayment and reduced the figure in a few weeks to £170,000,000.

In these conditions, the Governors felt justified in again asking the Chancellor to undertake that the short-dated borrowing of the Government from the Bank should continue to be reduced as rapidly as practicable, be extinguished if possible by the end of September, and be not again resorted to except for purely temporary and exceptional purposes. To this end the rates for Treasury Bills were immediately made more attractive but the Chancellor declined to commit himself to repay the Advances by any specific date.

So far were they from being repaid in September that at the very beginning of the month a serious situation was shown by the fact that Ways & Means Advances had been increased by no less than £26,500,000 in the previous fortnight and had again reached £240,000,000; but the raising of Treasury Bill rates immediately urged again by the Governors was not acted upon by the Chancellor until the 6th October, a step which was followed in November by the 6% Bank Rate and a further rise in the rate for Treasury Bills. By this means the total of Advances was reduced to under £20,000,000 for a short time in

November 1919, only to be increased again and to remain at a high level throughout the following year.

For three years now these Advances had, to a large extent, partaken of the nature of a continuous loan, and the Bank did not cease to urge that such loans should be obtained from the Public and the Advances from the Bank be once more confined to the temporary requirements of the Treasury.

(Charts showing the amounts outstanding on Ways & Means Advances during the War are in the hands of the Chief Cashier.)

During the period August 1914 to the end of 1920 the amount of interest paid to the Bank was £21,551,049:12:11(gross) or £15,398,474:13: 3 after deduction of Income Tax. The bulk of this interest was, of course, paid away as interest on "Bank's Borrowings".

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INTEREST ON WAYS & MEANS ADVANCES

August 1914 - February 1921

			Ways & Means Rate
1914	August 7	Bank Rate varying Max.	5%
	8	Bank Rate varying Max.	5%
	to end of August		4%
	October		3%
	November		2½%
1916	May 31/Sep. 27		4½%
1916	Dec. 27/June 18 1917		5%

(During this period (Jan. 12/Feb. 12) allowance was made for Interest calculated on Balance on War Loan a/c. from 7 days after being credited.)

Bank Rate

1914	July	30	4%
		31	8
	Aug.	1	10
		6	6
		8	5

		Ways & Means Rate
1917	June 19/Dec. 1917	4½%
	Dec. 31/Feb. 14 1918	4%
	(1% on Foreign Money added as from Dec. 31)	
1918	Feb. 15/end May 1919	3½%
1918	November 1/30	
	(1% allowance on United States of America Money borrowed first made.)	
1919	June 1	£221,000m @ 3½%

Balance { 3% to July 27; 3½% from July 28 to July 31 }

\+ 1% on Foreign Money

\- 1% on United States Money

Less Interest @ 3% on War Loan Balances calculated on Loan receipts in hand each Wednesday.

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"GOVERNMENT SECURITIES" AND "OTHER SECURITIES" INTEREST ON WAYS & MEANS ADVANCES

August 1914 - February 1921

			Ways & Means Rate
1919	August 1		3½%
		+ 1% on Foreign Money	
		Less 1% on United States Money	
1919	October 7	Rate for Ways & Means Advances moved to 4½% when Treasury Bill rate for 3 months was raised to that figure (7/10/1919) Foreign Money Rate 1%. United States Rate 2%.	
			Ways & Means Rate
1919	November 8	Rate raised to	5%
		No Foreign Money	
		United States Rate to	2½%
1920	February	Allowance @ 5% made on Exchequer 5¾% Bond Balances.	
1920	December	In the December account the Bank made allowance of interest at 5% to the Treasury o/a lapse of time due to refining between the delivery and payment for £4,500,000 gold received by the Treasury from the Bank of France and afterwards purchased by the Bank.	
		No United States Money after the close of 1920.	

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"GOVERNMENT SECURITIES" AND "OTHER SECURITIES"

WAYS & MEANS ADVANCES

The final accounting period for Excess Profits Duty came to an end on the 28th February 1921 and on the 31st March the Governor wrote to the Treasury offering a reduction in the rates charged for Ways and Means Advances. He said that the Bank were likely to earn considerable, if temporary, profits both from such Advances and from their arrangement with the Bank of France (which, though undertaken with the guarantee of the British Government, accrued solely to the profit of the Bank of England).

Since November 1919 Ways and Means Advances had been running at the highest rate allowed by Statute, namely, 5%. The Governor now suggested that for the current financial year the rates should be according to the following scale -

1% on the	first	£5,000,000	outstanding
2% " "	second	"	"
3% " "	third	"	"
4% " "	fourth	"	"
5% " "	balance outstanding over £20,000,000.		

This proposal was accepted with gratitude by the Treasury on the 4th April.

Advances were nearly continuous during 1921 until the 31st August but at a lower level than in 1920, the maximum being £88,000,000 at the beginning of the year.

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"GOVERNMENT SECURITIES" AND "OTHER SECURITIES"

DEFICIENCY ADVANCES

(Section 12 Exchequer & Audit Departments Act 1866)

No Deficiency Advances were made during the war, but in the autumn of 1916 the possibility that such Advances might be asked for appears to have occurred to the Bank and to have alarmed them. The matter was considered on the 6th September by the Committee of Treasury and on the same day the Deputy Chief Cashier wrote to the Treasury to say that, in view of the enormous additions which had been, and were still being, made to the National Debt, the Advances required might in future "very largely exceed anything which it would "be possible for the Bank to furnish". The whole of the arrangements governing the provision of such Advances by the Bank should therefore be fully reoonsidered as soon as possible.

The Treasury replied that, so far as the Public Debt was concerned, the material factor influencing the dimensions of these Advances was the amount of the dividends falling due on the 5th April, July, October and January. Owing to the conversion of Consols and Annuities, the interest on which was payable on these dates, the net effect of the alterations which had taken place would tend to diminish rather than increase the amount which the Bank would be likely to be asked to lend in this form. The Treasury therefore suggested that the question should be allowed to stand over until after the conclusion of the war.

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DEFICIENCY ADVANCES

(Section 12 Exchequer & Audit Departments Act 1866)

The Bank, while admitting the facts, remained dissatisfied, pointing out that by a re-arrangement of the Debt the amounts to be provided might easily be much increased and that the creation of credit by the Bank at such a rate* as "one half the Bank Rate would very greatly "increase the difficulties with which they have to contend "in their efforts to uphold the value of money". Even in times of peace the existing arrangements had often proved to be a serious obstacle to the success of action taken by the Bank to maintain the foreign exchanges. It was intimated that the Bank would be unable to furnish Deficiency Advances at the rate arranged in 1892, and it was suggested that if such accommodation were required the rate and amount should be a matter of special negotiation. This proposal the Treasury accepted on the 18th November.

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*Since 1892 the rate had been one half Bank Rate, maximum 3%.

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The following special advances were made by the Bank during the War, viz:-

1. Loans to Stock Exchange under Treasury Scheme.
2. Advances on War Loan 3½% 1925/28.
   (a) November 1914 - March 1918 to holders of this Loan.
   (b) March 1918 - March 1920 to original subscribers to this Loan.
3. Special advances on 4½% War Loan 1925/45.
4. Special advances on 1917 War Loans (4% & 5%).
5. Advances on 4% Funding Loan 1960/90 and on 4% Victory Bonds.

In order that they might be in a position the more readily to assist the Government, the Bank reduced their advances to private customers. Whenever such a request could conveniently be made, customers who had advances were asked to repay as soon as possible, applications for fresh advances being usually refused on the plea of the Bank's policy. In this way the Bank were able not only to reduce the advances of customers to a minimum but also to obtain repayment of certain advances which were beginning to assume the character of permanent indebtedness.

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*Excluding advances made in the Discount Office.

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In August 1914 considerable assistance - upwards of £10,000,000 - was sought from the Bank (H.O.) by Bankers and Brokers, but the whole of this amount was repaid before the end of the month.

1. Loans to Stock Exchange under Treasury Scheme*

Towards the end of October 1914 the Bank, acting on behalf of the Treasury, agreed to make advances to certain classes of lenders in order to avoid the necessity for a forced realisation on a large scale of securities held as cover for account to account loans, and thus to enable them to continue their loans if need be until the end of the War. In all a total of £2,089,171+ was advanced by the Bank, in accordance with the terms set forth in the Memorandum issued by the Treasury on the 31st October 1914, at 1% above the Bank rate varying with a minimum of 5%. Both the lender and the immediate borrower from the lender were held jointly responsible to the Bank who undertook not to press for repayment until the expiry of a period of twelve months from the conclusion of peace. Advances were made up to 60% of the value of the securities then held against loans outstanding on 29th July 1914, the securities to be valued at the prices of the 29th July 1914, the last pre-War account day. It was provided that

*The full Treasury Scheme is reproduced in the Appendix, together with the proposals of the Clearing Banks and Stock Exchange on which it was based. Further particulars are contained in C.C.P.162.

+ £642,780 Head Office
1,446,391 Branches
£2,089,171

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any security which touched that quotation was to be sold by the borrower, a pro rata portion of the advance being repaid. In addition, borrowers were allowed to repay in whole or in part at any time. The last advance was repaid on the 10th May 1919.

2. Advances on War Loan $3\frac{1}{2}$% 1925/8

In November 1914 the Bank undertook for a period of three years ending the 1st March 1918 to make advances to all holders of War Loan, up to the full value of the issue price of the Loan, viz., 95%, without margin, at 1% below Bank rate varying. Many people in addition to the Bank's own customers availed themselves of this offer; thus the total amount advanced rose considerably and during 1917 reached the maximum total of £24,000,000 for London and £16,715,000 for the Branches.

The Bank's offer unfortunately led to a considerable amount being advanced to persons who were either of little or no financial standing but were induced by unscrupulous persons to lend their names for a consideration, or were obviously persons whose sole object was to obtain as much money as possible without any intention of meeting their obligations. The following is an instance of a method adopted to give effect to this, e.g. :-

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A stockbroker of doubtful reputation would approach a friend or would obtain an introduction to a person who had no knowledge whatever of business and did not understand that he would in any way become liable for money advanced. A large holding of Loan would be bought at, say, 90%; the Bank would advance 95% of the nominal value of the holding, the money being advanced to the stockbroker's confederate. The stock would then be paid for by the proceeds of the cheque, the balance being divided between the stockbroker and the borrower.

In this way the Bank were saddled with various large advances which were made to borrowers who could not repay the principal, and in fact could not even pay the balance of interest due to the Bank, the borrower being found either to be entirely without means or to have disappeared without leaving a trace from the address registered in the Bank's Books. Through these means a loss of about £400,000 was eventually sustained by the Bank, as it was not until 1922 that the Stock rose above the issue price while the bulk of the advances were liquidated during the year 1920 when the quotation was 80½ to 83½.*

*None of the loss was incurred at the Branches.

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At the beginning of the year 1916 the Bank decided to refuse applications for advances in all cases where there was a reasonable doubt whether the borrower was good for any amount that he might be called upon to pay. Henceforth, although in direct contradiction to their offer to all holders, the Bank pursued the policy of analysing thoroughly all applications and rejecting those which appeared to be made by persons of no substance. Within a very short time the means adopted by the Bank were sufficient to scare away undesirable borrowers.

In 1917 the H.O. advanced over £18,000,000 against 3½% War Loan, mostly to Banks in connection with applications for 5% War Loan; the bulk of this sum, however, was repaid within a few weeks. Towards the end of February 1918, the Chancellor of the Exchequer addressed a letter to the Governor pointing out the hardships which would be sustained if the Bank insisted upon repayment of all advances on the 1st March and appealed to them to allow the privilege to be extended for a further period. In response to this appeal the Bank agreed to extend the time for repayment until the 1st March 1920, but stipulated that only borrowers who had been original subscribers to the Loan, and whose

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holdings had been in their physical possession continuously, should be entitled to this privilege. No further extension of time for repayment was granted and on the 1st March 1920 nearly all the advances were repaid. It was not, however, until a year later, viz., 22nd February 1921, that the last advance account was closed and for many months afterwards pressure was being exerted through Messrs. Freshfields upon certain of the debtors, the sum ultimately recovered being comparatively small.

3. Special Advances on 4½% War Loan 1925/45

In June 1915 the Bank advanced sums amounting to a total of £15,163,880* to their own customers and to the Clearing Bankers to enable them to pay for the 4½% War Loan for which they had applied. The advances, which were granted, with renewal, for a period of one year, were subject to the usual margin of 5% of the market price of the War Loan applied for, which was hypothecated as security for the advance. The rate of interest charged was ½% below the Bank rate varying.

These advances enabled the borrower either to pay up his holding of War Loan in full or to pay the instalments as they became due, in which case part

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*	£12,758,849	Head Office
	2,405,031	Branches
	£15,163,880	

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advances were made on the dates of the instalments.

At the end of the year allowed for these advances a considerable number of outstanding loans were transferred to "Loans for Short Periods on Securities", the rate of interest charged being the current rate charged for private advances.

4. Special Advances on 1917 War Loans (4% & 5%)

Upon the occasion of the issue of 4% and 5% War Loans the Governor addressed two letters dated the 4th and 5th January 1917 to the Chairman of the Committee of the London Clearing Bankers, in which he requested that all Bankers of the United Kingdom who were entitled to advances under the Currency and Bank Notes Act 1914 should be informed that, on their giving an assurance that they would allow it to be publicly stated by the Chancellor that they were willing to make reasonable advances at a rate not exceeding Bank rate to all their approved customers in order to enable the latter to subscribe to the new War Loans, the Chancellor would instruct the Bank of England to make similar advances to the Banks concerned, if desired at the same maximum rate, on the security of the new Loans or of 5% Exchequer Bonds 1921 acquired under the terms of the Treasury Memorandum of 4th January 1917.* The Bank were also to accept payment

*Regarding the issue to Bankers of 5% Exchequer Bonds 1921 in exchange for a portion of their holding of 4½% War Loan.

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from the Bankers, in respect of subscriptions to the new Loan, in 15 day Bills. On the 5th January a meeting of Bankers was held at which the Chancellor and the Governor of the Bank were present and the following resolution was passed unanimously -

"That this Meeting of Bankers of the United Kingdom "and Ireland and Indian & Colonial Bankers, if included "in the Chancellor's Scheme, having received the "Memorandum* of the Chancellor of the Exchequer, dated "4th January 1917, and having heard the statement of "the Chancellor and the letter of the Governor of the "Bank of England of the 4th January 1917 addressed to "the Chairman of the London Clearing Bankers and the "Chairman's statement with regard to the undertaking "of the Bank of England to make advances heartily "accepts the proposal of the Chancellor and pledges "itself to support the issue of the new Loan and "agrees to exchange the one-fourth of their existing "holdings of the War Loan for the 5% Exchequer Bonds "on the terms of the Memorandum. That the Chairman "be requested to convey the foregoing Resolution to "the Chancellor of the Exchequer with the thanks of "the Meeting for his able and lucid statement."

Some further negotiations may have taken place

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*Regarding the issue to Bankers of 5% Exchequer Bonds 1921 in exchange for a portion of their holding of 4½% War Loan.

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between the Chancellor and the clearing banks with regard to the rate to be charged on the proposed advances for, at a Committee of the Clearing Banks held on the 8th January 1917, the following resolution was passed -

"That Advances for the purpose of applying for the "War Loans of the 11th January 1917 may be granted "to approved borrowers at 1 per cent. under Bank Rate "varying with a minimum of 5 per cent. for a period "not exceeding three months and that this decision be "communicated to the Chancellor."

A misunderstanding appears to have arisen with regard to the actual terms at which the advances were to be granted, for on the 14th February 1917 the Chairman of the Clearing Banks (Mr R.V.Vassar-Smith) handed the Governor the following resolution -

"That the Chairman be requested to see the Governor "of the Bank of England, and represent that the "Clearing Banks have acted upon the interpretation "universally understood by them, namely that the "Memorandum* of January 8th was intended to vary the "rate at which the Bank of England would lend to the "Banks, as mentioned in the Governor's letter of "January 4th, and have assured their clients, the "Country Banks, to the same effect, who are relying

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*This Memorandum has not been found.

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"upon their assurance. They therefore ask that the "Bank of England will act in accordance with this "understanding.

"The Chairman is authorised to assure the Governor "that the Banks will not take advantage of the "arrangement so as to weaken the effective working "of the Bank Rate."

The Governor replied on the next day -

"With reference to the resolution of the Committee "of the Clearing Banks that you handed me yesterday, "I do not agree that there is any ambiguity in the "Memorandum of the 8th January as I remember it but "I have no copy, or in my letter of the 4th January, "or that they could rightly have been interpreted to "mean that the Bank of England would undertake to lend "at other than Bank Rate against 5% War Loan except in "the case of an application for the Loan.

"The Chancellor having arranged with the Clearing "Banks that they would lend to approved Customers for "the purpose of applying for the new Loan at 1% under "Bank Rate with a minimum of 5% for periods not ex-"ceeding three months fixed, undertaking at the same "time to leave the money for fifteen days with the "Bankers to whom he had already agreed to pay a

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"commission of $\frac{1}{8}$%, the Bank of England undertook in "case of need to take over this liability from the "Banks on the same terms and this undertaking the "Bank will carry out. I regret that the Bank of "England cannot enter into any engagement to advance "against the new War Loan as and when it may suit "the convenience of their Customers at anything but "Bank Rate and then only under the usual provisions. "The Bank will, however, be more than willing under "the exceptional circumstances of this Loan to advance "at any time to their good Customers the Banks at the "most favourable rate possible consistent with the "maintenance of the Foreign Exchanges."

In accordance with these arrangements, in the early part of the year 1917 the Bank were called upon to make advances

(a) To assist their customers to pay for their applications to these War Loans, and

(b) To enable the Clearing Banks to make similar advances to their customers.

On the 16th February no fewer than 153 advances totalling £5,658,970* were made to the Bank's customers - a considerable number being granted to members of the

*	£4,791,555	Head Office
	867,415	Branches
	£5,658,970	

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Staff - at 1% below the Bank rate varying with a minimum of 5%. The security for these advances was the War Loan applied for and a margin of 5% of the market value had to be maintained as cover. These advances were allowed, with renewals every three months, for a period of one year, the balance unpaid at the end of that period being transferred to "Loans for Short Periods on Securities" with a consequent increase in the rate of interest charged. Considerable applications for temporary assistance were received from the Clearing Banks and advances amounting to more than £95,000,000 - exclusive of £18,000,000 lent against War Loan 3½% 1925/8 - were granted. (It is interesting to note that as much as £170,000 was received on one day by way of interest). These large sums were, however, quickly repaid, the last being received in July 1917.

During the year 1918, with the exception of the extension of the privilege of borrowing against War Loan 3½% 1925/8, the Bank were not asked to grant any special borrowing facilities.

5. Advances on 4% Funding Loan 1960/90 and on 4% Victory Bonds

In June 1919 these two Loans were floated and, in order to enable their customers to pay for their

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subscriptions, the Bank advanced a total of £1,036,365* at ½% below the Bank rate varying with a minimum of 4½%. The usual 5% margin of the market price had to be maintained and the loan applied for was hypothecated as security for the advance. In 1920 advances which had been outstanding for one year were transferred to the Bank's ordinary advances.

Other Advances (Head Office)

Of other advances made during the War period, the following alone seems to call for comment.+

Early in 1920 certain legislation was introduced by the Prime Minister of Queensland, Mr.Theodore, which gave his Government power to increase the rent of Pastoral Leases beyond the limitations provided by an Act of 1905, and to expropriate on summary notice the undertaking of the Brisbane Tramway Co. The passing of the new Acts was regarded in London and elsewhere as constituting a breach of faith on the part of the Queensland Government,

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* £675,240 Head Office
  361,125 Branches
£1,036,365

+Note may be made that under an Order of Court dated 12th August 1918 the Bank adopted the practice of charging interest at the maturity instead of at the commencement of most advances, the opposite system having previously obtained.

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and when approached by Queensland on the subject of the issue of a loan, the Bank accordingly stated that unless the former came to equitable terms with the representatives of the Pastoral and Tramway interests neither they nor the official Queensland brokers, Messrs R.Nivison & Co., would undertake such an issue.

In July, however, in view of Mr.Theodore's undertaking to the Governor to abandon a programme of expenditure over several years, estimated at £3/4,000,000, the Bank, with the concurrence of the Colonial Office, agreed to advance £1,000,000 for one year, in order that certain contracts and fixed charges might be met.

The advance was to be made during the months of September to December 1920 on the security of £1,000,000 Queensland Government Treasury Bills, maturing from 28th September to 28th December 1921.

The amount actually advanced was £944,000, between September 1920 and May 1921.

Owing to the exchange conditions between England and Australia in the early part of 1921, due to the latter's imports having been much in excess of their exports and because of a refusal by the Commonwealth Government to permit the export of gold from that country, it became extremely difficult to transfer funds from Australia to London; it was neither possible to ensure

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the repayment at any particular date of loans which had been made here nor to provide for further requirements in London. In these circumstances Queensland again approached the Bank, in January 1921, with an application for further advances of £1,300,000 until February 1922.

The negotiations, however, came to nothing.

During the Spring the London Market still seemed likely to be closed to Queensland issues and there was fear that before Queensland's finances could be improved there might be default or repudiation.

In June the Bank agreed to extend the existing advance as follows -

£200,000 to the 28th September 1921,
£50,000 " " 30th October 1921,
£200,000 " " 30th November 1921, and the balance
of £550,000 due the 28th December until 30th June 1922.

Further extensions of the loan were arranged in August 1921, £450,000 being made repayable on the 30th September 1922 and £550,000 on the 31st December 1922. In consenting to this extension the Bank was influenced by a desire to assist H.M.Treasury. The Queensland Government was asked to hypothecate 5 Year 6% Bonds as security instead of their Treasury Bills; such Bonds would be convenient for use by the British Treasury, who wished to acquire new securities to

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replace subrogated securities in America shortly to be returned to their owners. The Queensland advance, in the event of such Bonds being used for this purpose, would be covered by other securities which the British Government would supply.*

*On the 27th October, however, the Queensland Government, having succeeded in raising a loan in the United States, repaid the whole advance of £944,000.

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DISCOUNT OFFICE: DISCOUNTS AND ADVANCES

"What is wanted and what is necessary to stop "a panic is to diffuse the impression that, though money "may be dear, still money is to be had."

(Bagehot's "LOMBARD STREET", Chap.II.)

"...advances, if made at all for the purpose of "curing panic, should be made in the manner most likely "to cure that panic. And for this purpose, they should "be made on everything which in common times is good "'banking security'."

(Bagehot's "LOMBARD STREET", Chap.VII.)

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DISCOUNT OFFICE: DISCOUNTS AND ADVANCES*

1914 The War work of the Discount Office may be said to have begun on Saturday, the 25th July 1914, when, owing to the critical situation on the Continent, London Bankers began calling in Loans in order to strengthen themselves, and the Market was consequently driven into the Bank[+]. On the 25th, 27th, 28th and 29th the following business was done (Bank Rate 3%) -

	Discounts	Loans
25th	£125,800	£650,000
27th	£3,200,000	£1,625,000
28th	£930,000	£485,000
29th	£4,084,000	£1,114,000

14 day Bills were taken from the Market at Bank Rate and Loans were made at 3½%, 60 day Bills being taken

*In the Appendices, under the heading "Bills of Exchange, etc. - Moratorium Arrangements", will be found the five Proclamations and four announcements in "The Times" newspaper referred to in this Section, viz:-
Proclamation of 2nd August 1914.
Proclamation of 6th August 1914.
Proclamation of 12th August 1914.
Announcement in "The Times" - 13th August 1914.
Proclamation of 3rd September 1914.
Announcement in "The Times" - 5th September 1914.
Announcement in "The Times" - 24th September 1914.
Proclamation of 30th September 1914.
Announcement in "The Times" - 2nd October 1914.

+For an account of the situation in the London Money Market just before and for the first three months after the outbreak of War, vide the Economic Journal, September 1914 "War and the Financial System, August, 1914" and December 1914 "The Prospects of Money, November, 1914" both papers by Mr.J.M.Keynes. Quotations from these articles will be found in this Section.

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1914 from Banks and 90 day Bills from customers. The Market Rate on the 27th was 4% and on the 29th 5%.

On Thursday, the 30th, the heavy demands for accommodation of the previous few days caused the Bank Rate to be raised to 4%. The business done that day was not very large - £410,000 Discounts and £655,000 Loans. The Discount Market was at a standstill.

On Friday, the 31st, came the closing of the Stock Exchange, making securities unsaleable, and a partial run on the Banks for cash, the latter largely due to the action of the Banks themselves in showing a reluctance to pay out gold. The Banks called heavily from the Discount Market, who were thus forced into the Bank for a very large amount. The working rate for Discounts rose rapidly during the day from 6 to 10%: short Bills were taken from the Market and up to four months from Banks. At 3 p.m. Bank Rate was raised to 8%. The day's totals were:-

Discounts	Loans
£363,000 @ 6 per cent.	£37,000 @ 6½ per cent.
£1,809,000 @ 8 per cent.	£3,382,000 @ 8½ per cent.
£860,000 @ 10 per cent.	£4,513,000 @ 10½ per cent.

No business was done in the open Market and remittances from abroad not coming in the Exchanges became utterly demoralised. Bills were unsaleable as nobody knew what would be paid.

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1914 On Saturday, the 1st August, the panic continued but no business was done at the Bank prior to a sitting of the Court. At about 12.30 Bank Rate was raised to 10% and the Discount Office was again ready to give accommodation, but the demand abated somewhat: business done, however, was still large:-

Discounts £663,000 @ 10% Loans £3,775,000 @ 10½%.

The accommodation on both days was principally to the Discount Market, the exceptions being:-

Discounts	
Customers and firms having Discount Accounts	£576,000
Banks - Chartered Bank of India, Australia & China	£151,000
Anglo-South American Bank, Ltd.	£149,000
London & Hanseatic Bank	£152,000
British Bank of South America, Ltd.	£102,000
Union Bank of Canada	£39,000
Loans	
Anglo-Egyptian Bank, Ltd.	£50,000
Imperial Ottoman Bank	£600,000

On Sunday, the 2nd August, a Proclamation relating to Bills of Exchange only was made for postponing the payment for one calendar month of Bills accepted before the 4th August. This gave temporary relief to the

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1914 Accepting Houses, whose difficulties were of course due to the fact that the Banks and Discount Houses were depending upon them, while they themselves were dependent on foreign clients who were unable to remit, for various reasons, one being the closing of the London Stock Exchange.

At a meeting of Bankers and others at the Bank of England on Monday, the 3rd, the effect of the Proclamation was discussed and the following method of procedure was adopted:

> When an accepted Bill of Exchange was presented for payment at the Bank with which it was domiciled, this Bank, if instructed to do so by the acceptor, was to return the answer "Instructions not to pay in Terms of the Proclamation". The holder was then to present it to the acceptor, who would re-accept the Bill if left with him for that purpose in the usual way. Those acceptors therefore who intended to avail themselves of the Proclamation were to instruct their Bankers accordingly.

A Bill was passed in Parliament on this day to prolong the holidays for three more days, until Thursday, the 6th August, inclusive.

On Thursday, the day before the Banks re-opened, Bank Rate was reduced to 6%: and on that day

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1914 a Proclamation was made "for extending the postponement of payments allowed by the Proclamation of the 2nd August, 1914, to certain other payments". Nearly all classes of debtors, including the Banks, were protected by this Proclamation.

Banks re-opened on Friday, the 7th August, but only a moderate business was done at the Bank: Discounts £292,000 and Loans £1,592,000. After this date the accommodation granted was almost entirely by way of Discounts, only an occasional Loan being asked for. Brokers were lightening their books as quickly as they could.

The Loans had all been made for the usual seven days, but practically all borrowers took advantage of the Moratorium, under the Proclamation of the 6th, to postpone repayment. All Loans were, however, repaid before the end of the month.

On Saturday, the 8th August, Bank Rate was reduced to 5%. On this and the next two working days only a moderate business was done - £2,796,000 Discounts: but on Wednesday, the 12th, the Discounts amounted to £3,348,000. The Market were at liberty to put in Bills up to 60 days, and Banks up to 6 months. The Banks regained confidence to some extent on the issue of Treasury Notes, and ceased to call so heavily from the Market.

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1914 The stagnation which set in on the 31st July continued until the 13th August. During this time the Market quoted no rates and undertook no fresh business, the proceeds of Bills sold to the Bank being used in repayment of Loans. Trade, both internal and foreign, was to a large extent held up. Two separate difficulties required solution, that of getting new Bills satisfactorily accepted and, when accepted, discounted. The first problem was not directly dealt with but was left to time and the indirect effects of the solution of the second. This came about by the Treasury Announcement of Thursday, the 13th August, intimating that the Bank would discount, under Government guarantee, without recourse to the holder, any approved Bill accepted before the 4th August; approved Bills to include, in addition to those customarily discounted, good Trade Bills and acceptances of foreign and colonial Banks and Agencies in this country.

A letter from the Treasury, dated the 27th August 1914, gave the exact terms of the arrangement as follows:-

"1. The Bank of England will, upon the application "of the holder of any approved Bill of Exchange accepted "before the 4th August 1914, discount such Bill at any "time before its due date at Bank Rate without recourse "to such holder.

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1914 "(In the case of date Bills the acceptance, if "undated, may be deemed to have been given in course of "post from the date on which the Bills were drawn.)

"2. It will be for the Bank of England to decide in "any particular case whether a Bill is to be approved, but "the Bank will be prepared to approve such Bills of Ex- "change as are customarily discounted by them and also "good Trade Bills and the acceptances of such foreign and "colonial firms and Bank Agencies as are established in "Great Britain.

"3. Upon the maturity of any Bill so discounted the "Bank of England will give the acceptor the opportunity "of postponing payment pending further notice, interest "being payable in the meantime at 2 per cent. over Bank "Rate varying.

"4. The date at which such further notice shall be "given shall be determined by the Bank after consultation "with the Treasury.

"5. Arrangements will be made for preserving all "existing obligations, so far as possible, in respect of "Bills discounted.

"6. The Bank of England are to be indemnified for "any action taken by them in the matter, and to be "guaranteed by the Treasury against any loss which may "be incurred by the Bank as the result of their "operations.

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1914 "7. Such loss is to be calculated in accordance "with an account to be kept in the following form:-

	£		£
"Amount of approved "Bills discounted "at Bank Rate, pay- "ment of which has "been postponed		Amount realised by the Bank in respect of approved Bills, payment of which has been postponed	
"Net deficiency		Interest received at 2 per cent. (above Bank Rate varying) in respect of approved Bills, payment of which has been postponed, less allowance to the Bank for interest (at 1 per cent. below Bank Rate varying) and expenses ($\frac{1}{2}$ per cent.)	
"	£		£

"8. The Chancellor of the Exchequer has undertaken "to ask Parliament to pass the legislation necessary for "giving statutory authority for this scheme, and for "charging against the Exchequer the amount of the ul- "timate loss which may be incurred by the Bank in "carrying it into effect."

The Bank accepted the terms proposed on the same day. It will be noted that the Treasury letter speaks of allowance for interest to the Bank at 1% under Bank Rate varying. The division of the interest charged

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1914 on pre-Moratorium Advances (referred to later) doubtless rests upon this letter, no other authority having been found, the Treasury receiving three-sevenths of such interest and the Bank four-sevenths. For the total charge was Bank Rate, 5%, plus 2% = 7%, of which the Bank would receive 1% below Bank Rate, i.e., 4%, which is four-sevenths in this case.

Banks and Brokers took immediate advantage of the very great relief offered and the discount business that day amounted to £6,536,000.

On the following day, Friday the 14th, the amount of Bills discounted was the largest reached in one day in the history of the Bank, the total being £9,450,000. The Court Room was used, a Staff of nearly 100 men was employed and the day's work was completed at 8 a.m. on the morning of the 15th. On that day, the 15th, the Discounts amounted to £2,000,000.

After this the Governor limited the amount of Discounts to be taken in any one day to £5,000,000. This limitation rather alarmed discounters and for some days Bankers and Brokers waited in a queue from 9 o'clock in the morning, afraid of being shut out. On Monday the 17th the Office was closed to the Market

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1914 at 12.45 mid-day, and on the 18th at 10.50 a.m. When this rush had been going on for a few days discounters were allowed, to ease matters, to put their names down one day for the amount they wished to discount the following day and this arrangement worked very smoothly. Until the 29th August about £5,000,000 a day was brought in, but after that date the daily amount gradually fell off; though the flow continued fairly steadily until the beginning of December, by which time the daily total had fallen to £25/30,000. Only small amounts continued to come in after that until early in February when, the supply of six months' Bills being exhausted, the discounting of pre-Moratorium Bills ceased altogether. The total of pre-Moratorium Bills discounted under Government guarantee was £120,305,733:10: 1.

The greater part of these Bills, quite three-quarters and probably more, were provided for at maturity, i.e., when the Moratorium came to an end, by Advances under the Treasury Scheme of the 5th September (vide Appendices). Of the remainder, £37,000 were unpaid at the 31st August 1921.

There were complaints that Bankers were slow in responding to the open-handed assistance which they had received from the Government and were not inclined

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1914 to lend as freely as they were expected to for the purpose of re-starting the necessary machinery of commerce. They were accused of considering their own safety, or even profits, more than the general good. The Chancellor of the Exchequer (Mr.Lloyd George) attacked them in a speech in the House of Commons on the 26th August, but they had their defenders, notably the "Economist".

The daily procedure of the Discount business was as follows. A Special Committee of Directors sat to pass Bills. If acceptors' names were unknown to the Bank, the Bills were returned to the discounter with a notice that they might be submitted again in a few days. In the meantime enquiries were made and if reports were satisfactory the Bills were taken. Long lists of names to be reported upon were sent daily to Seyd & Co. Firms not having accounts at the Bank could only submit Bills through their own Bankers and the Bills were discounted for the Banker and not for his customer.

While this large discounting business was in progress, Bills falling due had to be sent out by the Bill Office for re-acceptance under the Proclamation of the 2nd August, the interest calculation at Bank Rate being done in the Discount Office. That Proclamation,

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1914 as already noted, allowed an extension of one calendar month for Bills accepted prior to the 4th August and falling due on and after the 3rd August. Under a Proclamation of the 3rd September a further extension of one month was allowed for Bills re-accepted (under the 2nd August Proclamation) before the 4th September, and a Proclamation of the 30th September allowed Bills originally falling due between the 3rd August and the 4th October an extension of 14 days beyond the dates on which they would have become due under the two previous Proclamations.

The result of the three Proclamations was that Bills originally due

between 3 August	and 3 September*	might be extended for 2 months and 14 days.
between 4 September	and 3 October	might be extended for 1 month and 14 days.
on	4 October and after	might be extended for 1 month.

The General Moratorium came to an end on the 4th November (except as regards Bills of Exchange, as provided by the Proclamation of the 30th September).

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*With this modification, that owing to the extra Bank Holidays, Bills due the 3rd, 4th, 5th and 6th August were re-accepted on the 7th, thus extending their currency to the 21st October.

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1914 After the first extension, Bills were not actually re-accepted but the additional interest had again to be added, and the amount of work this entailed will be appreciated from the fact that some 80,000 Bills were discounted under the Government guarantee. Two to three hundred men were employed upon this work for some time, working in the evening only.

Meanwhile, on the 5th September an announcement was made by the Treasury of the Government measure, alluded to in the announcement of the 13th August, by which acceptors would be enabled to meet these Bills when the Moratorium finally came to an end. This scheme, called "Advances on pre-Moratorium Bills", is dealt with separately under that heading. £74 millions were lent under this scheme.

At this point it may be of interest to introduce some remarks by Mr.J.M.Keynes, taken from his paper "The Prospects of Money, November 1914" already referred to. After giving in this and in his previous article "War and the Financial System" a narrative of events up to the time when the Government authorised the Bank of England to lend acceptors of approved Bills money to meet those Bills at maturity, and giving figures from the Bank Returns to illustrate the effect of the various

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1914 measures of accommodation afforded, he comments as follows -

"It is not obvious why any of the measures "described above should have much affected the Bank's "Returns. Nor need they have done so, prior to the "ultimate maturity of the Bills, and then only to the "extent by which the Accepting Houses might take from "the Bank of England the expensive assistance offered "them. That these measures did have so marked an effect "on the Bank's Returns was partly due, I think, to a con- "fusion of ideas. This confusion was between making Bills "marketable and actually marketing them.

"It was natural that the Banks should be anxious "to make sure which of their Bills would come under the "guarantee, and so be immediately marketable in case of "need. But it was not natural that they should actually "market the Bills (and specially unnatural in the case of "the Clearing Banks, who had, most of them, a long, un- "broken tradition against re-discounting Bills once "purchased), unless they needed the money. A certain "amount of extra cash was needed in order to make the "additions, which the Banks thought necessary, to the "usual till money held at their numerous branches. But "the actual re-discounting of Bills at the Bank of England "went much beyond what was required for any such purpose. "The Money Market supplied itself with far more funds than

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1914 "it could profitably employ. Thus there was the strange "spectacle of Banks and others discounting at 5 per cent. "Bills which had a Government guarantee, and which could "be discounted with equal facility at some later date, and "using the money in buying to yield about 3½ per cent. "Bills, which were without a Government guarantee. This "was not, on the face of it, good business.

"There may possibly have been some difficulty "in discovering what Bills would be approved without "actually discounting them. If this was the case, the "Treasury and the Bank of England were to blame. No "object, except that of increasing the profits of the "Bank of England, could be served by pressing the Money "Market to sell Bills; and it would have been possible "to make arrangements for the Bank of England to approve "Bills or to issue a plain statement as to what Bills "would be approved without actually buying them. That "the Bank of England was a little inclined to press the "Money Market to discount, rather than to pursue, as they "probably ought, the opposite policy, is suggested by a "notice which was posted up at the Bank of England on

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1914 "September 29th*.

"Even if it be true, however, that the Bank of "England was anxious to buy at 5 per cent. Bills guaranteed "by the Government, and that the Treasury did nothing to "hinder the play of this natural instinct (it is always "difficult to remember when the Bank of England is a truly "national institution, as it has several times shown itself "in recent months, and when a private one out, like any "other, for profit), it still appears on the surface that "the outside Market played into their hands more than was "necessary. Most Bills fall into a certain number of "well-defined classes, and it should have been possible by "re-discounting samples at the Bank of England to determine "with reasonable certainty that many important lines of "Bills would unquestionably fall into the category of "approved."

Mr.Keynes also referred to the danger of inflation arising from such large additions to the Bankers' cash.

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*"'In order to avoid possible disappointment, those who wish "'to avail themselves of the arrangement for discounting pre- "'Moratorium Bills at the Bank of England are invited to send "'in their applications without delay.

"'It is not found possible to undertake to discount Bills "'having less than three clear days to run.'

"It is not plain whether the phrase 'possible disappoint- "ment' refers to Bills having considerable periods to run or "only to Bills having 'less than three clear days': and it "seems to run the risk of bluffing timid holders into parting "with good security at what was, at the Market Rates of the "day, a somewhat unfavourable price."

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1914 These criticisms merit a reply, although the suggestion that the Bank was possibly seeking profit from others' misfortunes may be ignored. The Bank were passive; holders of Bills seemed to be only too glad to sell them to the Bank at once and the latter made it as easy as possible for them to do so in order to restore confidence. The Bills which the Banks sent in were not only their own Bills; Bills were poured into them by their customers - largely small traders all over the country - to be passed on to the Bank of England, who would only take these Bills from Bankers. The fact that the Bills were discounted "without recourse" offered a strong inducement to all holders to part with any doubtful Bills which they might possess. Naturally, the Bank of England's opportunities of arriving at the real value of such Bills were usually less than those of the Bankers who had taken them.

The notice quoted was exhibited (and was reproduced in "The Times"). Whatever the phrase "possible disappointment" referred to, it is not thought that there could have been any idea of withdrawing the facilities.

As regards the contention that Bills could have been divided into categories, samples of which when discounted would have indicated the eligibility or otherwise

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1914 of the remainder, it may be said that such a course, even if practicable, might have been unsatisfactory to the holders of the Bills, since a delay to discount Bills eligible at the moment might well have resulted in such Bills being refused when presented later on account of the changed status of the acceptors, some of whom might by then have become bankrupt. But in any case it would have been difficult to give any adequate definition of Bills that would be approved; any Bill that was likely to be paid was approved, but enquiries had to be made about hundreds of names every day. If the Bills had not been actually discounted such enquiries would not only have been multiplied, but would to a great extent have been useless, as affording no assurance that the acceptors' position would continue to be that ascertained.

While inflation might have been reduced or postponed had the Bank not been called upon to discount this great mass of Bills, they would still no doubt have had to find money for the Bills' repayment at maturity. It is, however, arguable that steps should have been taken earlier to withdraw surplus money from the Market by means of Bank Borrowings (not instituted until February 1915) or by the issue of "tap" Treasury Bills. £90 millions of tender Bills were issued from the 19th August to the 4th November, but these were insufficient to raise rates,

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1914 whereas any desired level of rates could have been maintained by placing Treasury Bills on issue day by day at fixed rates. But the way was probably being kept clear for the 3½% War Loan. As explained elsewhere, however, the hopes entertained of this issue were disappointed; doubtless owing to the low immediate yield offered thereon.

To return to Market Rates: between the 30th July and the 27th August no money or Bill Rates were quoted, but on the latter date "The Times" gave the following rates:-

Bills - all dates from 2 to 6 months	5 - 5¼%
Money - day to day	3%
- week	3½ - 4%

All this time money was very plentiful owing to discounting of pre-Moratorium Bills at the Bank. When the Banks re-opened on the 7th August the Deposit Rate was 4% but was reduced to 3½% on the following day and by the 8th October was down to 2%, and the Discount Houses' rates were then 2½% at call and 2¾% at notice. The Bill Rate also soon fell away and by the middle of September 3 months' post-Moratorium Bills were quoted 3 - 3¼% and money 1½ - 2½%. From then until the middle of November money was usually 2% for the day or week.

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1914 In December the Bill Rate was about $2\frac{3}{4}$ - $2\frac{7}{8}$% and money $1\frac{3}{4}$ - 2%. For the last ten days of the month money could be borrowed over the end of the year at $2\frac{1}{4}$ - $2\frac{1}{2}$% and there was no borrowing from the Bank. There was not a great supply of Commercial Bills and business was chiefly in Treasury Bills.

The $3\frac{1}{2}$% War Loan was issued on the 18th November, but the applications had no effect on the Market. Advances on this security were made at one per cent. under Bank Rate practically to all comers. Mr. Keynes, in his article in the Economic Journal of December 1914 already quoted, pointed out that the effectiveness of the nominal Bank Rate in maintaining rates would be further weakened by this provision. He wrote: "It may even prove necessary to redress "the new arrangement by the Bank of England's fixing Bank "Rate one per cent. higher than they otherwise would. I "hope they will adopt this course. If Discount Houses and "traders and others are habitually in a position of "possessing large blocks of Stock, with which they can "absolutely rely on being able to borrow, if necessary, at "one per cent. below Bank Rate, then clearly in all pro- "positions about making a given rate for money 'effective', "wherever the phrase 'Bank Rate' used to occur, we must now "substitute 'one per cent. below Bank Rate'.

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1914 "On the other hand, the new arrangement is "calculated to make 'one per cent. below Bank Rate' more "'effective' in the near future than 'Bank Rate' is at "present. For it appears to be a direct incitement to "the Money Market to employ call money, etc., in carrying "War Loan Stock in preference to Bills of Exchange. In "itself this change is undesirable, because, in spite of "recent events, there is an inherent suitability in Bills "of Exchange for such a purpose. But by providing an al-"most inexhaustible means of employing call money safely, "the Treasury's action ought to stiffen the rates for this, "and, by providing a formidable rival to Bills of Exchange "it ought to stiffen the rates for the latter also; so "long, that is to say, as these rates are below 4 per cent., "and so long as the price of the Stock is not appreciably "above its price of issue. When these rates rise above 4 "per cent., then all is changed, money rates being now "related to the net yield on Government Stock far more "intimately than has been the case in recent years. When "Market Rate exceeds 4 per cent., i.e., when Bank Rate ex-"ceeds 5 per cent., the new Stock will lose its attractions "for the Money Market. Thus to raise the Bank Rate may "directly tend in the near future to depreciate the price "of the new Stock. This, I fear, may act as an argument

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1914 "against raising Bank Rate, even when the general "situation requires it to be raised. It is not a good "thing that the apparent credit of the Government should "be too closely bound up with the effective level of "Bank Rate."

1915 Early in February 1915 the Discount Houses reduced Deposit Rates to $1\frac{1}{2}$ and $1\frac{3}{4}$%, and 3 months' Bills were $1\frac{5}{16} - 1\frac{3}{8}$%. Day to day money at this time was $\frac{3}{4}$ - 1%, and early in March $\frac{1}{2}$ - $\frac{3}{4}$%. Rates for some time were very easy (with occasional rises on account of gold withdrawals) owing to plethora of money and scarcity of Bills, but in mid-April when Treasury Bills were for the first time obtainable daily at fixed rates ($2\frac{3}{4}$% for 3 months, $3\frac{5}{8}$% for 6 months, and $3\frac{3}{4}$% for 9 months) these rates governed the Bill quotations. A sharp rise, however, occurred in June when the $4\frac{1}{2}$% War Loan was issued, following gold withdrawals. Discounts then rose to $4\frac{1}{8}$ - $4\frac{1}{2}$%.

As already stated, the discounting of pre-Moratorium Bills ceased in the early days of February and from then until the middle of July, money being easy, the Discount Office did no business; except for occasional Loans to Brokers on $3\frac{1}{2}$% War Loan and the discounting of a few small parcels of Trade Bills for customers.

The Bank began borrowing from Clearing Banks in March (vide Section on Bank's Borrowings) so instead of

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1915 calling from the Market at the end of June for Balance Sheet purposes, Banks withdrew money from the Bank of England.

But on the 14th July preparations began for payments on account of the 4½% War Loan (Prospectus dated 21st June) and money became short as payments in full could be made on the 20th under discount at the rate of 4½%. Moreover the Government paid £20 millions to the Bank on the 18th August as a first instalment of the "Agreed Debt".

The following rates were charged for Loans and Discounts:-

From the 14th to the 20th July 2½%, and 5% from the 20th until the maturity of the Loan or discounted Bills, except in the case of the 3½% War Loan security, on which Loans were made at 2½% to the 20th July and 1% below Bank Rate from the 20th until maturity.

On the 16th July the following special rates for Advances and Discounts were authorised by the Governor:-

ADVANCES

1. On 3½% War Loan.

To all comers	1 per cent. under Bank Rate varying.

This arrangement to hold good until the 1st March 1918.

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1915 2. On the new 4½% War Loan.

To all Banks having Currency Note facilities and to Colonial and other Banks having no Currency Note facilities but who kept accounts with the Bank, and to all other customers, with 5 per cent. margin.	½ per cent. under Bank Rate varying.

This facility was extended on the 29th September to all Indian and Colonial Banks having establishments in London.

3. On Bills of Exchange with not more than 95 days to run, Treasury Bills due any date, and Floaters.

To the Discount Market for not exceeding 14 days	Bank Rate (Not to be a precedent)

DISCOUNTS

Treasury Bills

(a) To all approved parties for purposes of War Loan subscription only - money not to go out of the Bank.	½% under Bank Rate
(b) To the Discount Market - on Bills with not more than 63 days to run. To other customers - on Bills with not more than 95 days to run. If not for purposes of War Loan subscription.	Bank Rate

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1915 These arrangements to hold good -

As far as Banks only were concerned - until July 1916*

As regards all others - until the final instalment of the War Loan - 26th October 1915.

Only two Banks, the Mercantile Bank of India and the Eastern Bank, and a few customers, borrowed on 4½% War Loan.

The Loans made were for 7 days to 12 days and Bills with 10 days to run were taken.

From the 14th to the 20th July the following business was done -

Loans £19,000,000. Discounts £3,951,000.

These arrangements were much appreciated, but the pressure put upon the Banks was severely criticised and it was said that so great an inducement to pay up in full should not have been offered.

On the 20th July for the purpose of War Loan payments under the terms of the Prospectus, Treasury Bills to the amount of £10,456,000 were also discounted, at 4½%, and

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*A letter from the Chancellor dated the 2nd July 1915 circulated at a meeting of Bankers held at the London County & Westminster Bank on the 9th July 1915 contained the following passage - "The Bank of England will agree as a temporary "measure and to facilitate transactions in connection with "the subscription of the Loan," (i.e., the 4½% War Loan) "for "a period of twelve months from the 10th July to make Ad- "vances to Bankers (that is, those Banks to whom Currency "Note facilities are open) against War Stock and Bonds up to "an amount not exceeding 95 per cent. of the par value of "the Stock or Bonds deposited at ½ per cent. below Bank Rate "varying."

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1915 a further £18,615,000 Bills were similarly dealt with between the 21st July and the 26th October, when the final instalment became due. From the opening of the lists on the 21st June until the 14th July £7,000 only had been discounted. The total was £29,078,000.

The Market Bill Rate for the last half of the year ranged between 4¾ and 5½%, governed by the "Tap" Rate for Treasury Bills, and money was generally easy except at the dates of War Loan instalments and at the end of December. The Market was, however, occasionally in the Bank and almost invariably pledged 3½% War Loan at 1% under Bank Rate. In fact until the last few days in December there was only one other Market Loan, that being at Bank Rate.

The end of the year borrowings, compared with normal times, were insignificant, the total of Loans and Discounts for five days being £2,623,523, all at ½% over Bank Rate. Of this total Discounts were only £151,000.

1916 The year 1916 opened with the three months' Market Discount Rate at about 5¼%. Money was not always abundant for the first three months, tax collections being chiefly responsible, and the Market was in and out of the Bank at intervals.

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1916 Between the 1st April and the 20th June the Market had occasion to borrow only small amounts on two or three days, and in the last ten days of the half-year they only took £1,000,000, partly on 3½% War Loan at the usual 1% under Bank Rate and partly on other security at ½% above Bank Rate.

On the 13th July, owing to higher money values in New York, Bank Rate was raised to 6%, the "Tap" Rate for Treasury Bills moving up on the following day to 5½% for 3 months' Bills, 5¾% for 6 months' Bills and 6% for 12 months' Bills.

Money was generally quite easy for the remainder of the year, though Bill Rates remained high, and only £290,000 was borrowed by the Market at the end of December on 3½% War Loan.

1917 Early in January 1917 the sale of Treasury Bills was suspended in view of the approaching issue of the 5% and 4% War Loans, and the Market was consequently flooded with money.

The lists were opened on the 11th January and closed on the 16th February.

British Government Treasury Bills and War Expenditure Certificates were accepted in lieu of cash in payment for fully-paid allotments, provided that the entire

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1917 proceeds were so applied, Treasury Bills at 5% and War Expenditure Certificates at 5½% discount. Specially printed vouchers were handed to discounters, available as cash in the Loans Office.

On the 18th January Bank Rate was reduced to 5½%.

Money remained fairly easy throughout the month, except towards the end, when the Market borrowed about £800,000. In February there was a keen demand for a few days before the closing of the Loan lists, the Market taking about £10,000,000 in Loans and Discounts, Loans at 5½% and Discounts at 5⅛%.

The reduction of Bank Rate from 6% to 5½% had little or no effect on the Market, since no change was made in the rate (then the chief influence on the price of money) which the Bank gave to the Clearing Bankers. This continued to be 5% until the 26th February, when it was reduced to 4½%, and to 4% on the 19th June.

Early in March the Banks discounted, and the Market discounted and borrowed a total of £9,000,000 at 5½%; and in addition to discounting the Banks took enormous Advances in the Chief Cashier's Office at the same time in order to enable them to carry out the big transfers of cash involved by War Loan payments, very

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1917 large amounts of Stock being paid up in full (vide Chapter III).

On the 26th March it was announced that tenders would be received on the 30th for £50,000,000 3, 6 and 12 months' Treasury Bills to be paid for on the 3rd April, and owing to maturing Treasury Bills and Government disbursements payment was made quite easily.

On the 5th April Bank Rate was reduced to 5%, at which rate it remained until the 6th November 1919. The reduction had practically no immediate effect on outside money rates as no change was made in the rate allowed by the Bank to other Banks for money borrowed.

Three further issues of Treasury Bills by tender were made during the month amounting to £120,000,000, but they were paid for without much difficulty, the Market having to borrow only £1,500,000 from the Bank. Similarly, a very small amount was borrowed in May in spite of further large issues of Treasury Bills. On the 19th June the rate allowed to Clearing Banks for surplus funds was reduced from 4½% to 4% and "Tap" Treasury Bills were re-instated. The Bankers kept their Deposit Rate at 4%, at which level it remained throughout the year. A preferential rate for foreign money was introduced by the Bank of England on the 15th November.

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1917 After May the Market was in and out of the Bank at intervals but never for more than a few hundred thousands at a time, payments for Treasury Bills and Government disbursements offsetting one another. Only £100,000 was borrowed by the Market at the end of the year.

The Market Discount Rate, which was 5% at the beginning of the year, had fallen to 4% at the end, following Treasury Bill Rates.

1918 £10,000,000 Russian Treasury Bills issued by the Bank of England matured on the 28th January 1918 and as, owing to the Revolution, there was no prospect of their being paid, there was a good deal of anxiety in the Market before an announcement was made by the Chancellor of the Exchequer that holders would be granted 12 year 3% Exchequer Bonds, quoted at 82, in exchange. This offer was extended also to acceptors of £7,500,000 Commercial Bills drawn by Russian Banks under a revolving credit, which was to continue until one year after the conclusion of Peace. Both classes of creditor had perforce to accept an arrangement which they regarded with dissatisfaction.

Money was very easy in the early part of the year, but towards the end of March the ingathering of taxes and the special efforts made on account of National War

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1918 Bonds ("Business Men's War Bond Week" and "Tank" collections), caused a shortage and a large business was done at the Bank. The Banks discounted £7,600,000 at $3\frac{5}{8}$% and the Market borrowed £4,400,000 at 4%, the latter being a special rate allowed in view of the War Bond subscriptions.

From then until the end of June no transactions took place in the Discount Office, but during the last few days of the half-year the Banks discounted £2,250,000 and the Market borrowed £4,000,000, both at 4%.

There was again practically nothing done until the end of the September quarter when the Market discounted and borrowed £6,700,000, all at 5%, but they were allowed to borrow for 3 days only; the reason for this concession was that, in order to stimulate the sale of War Bonds, Brokers had for some months been precluded from offering more than 3% for Deposits other than Bankers' funds.

Towards the end of October the Market was again in the Bank for a few days and borrowed £2,500,000. Three day Loans were allowed at 4%.

Money was easy for the rest of the year and the only business at the end of December was £800,000 discounted for the National Bank of Scotland and £1,500,000 for the Standard Bank of South Africa: at $3\frac{1}{2}$% and 5% respectively.

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1918 From the 14th February, when the Treasury Bill Rate was reduced to $3\frac{1}{2}\%$ and the Bank's rate for Loans from Clearing Banks to 3%, the Market Discount Rate remained unchanged to the end of the year at about $3\frac{1}{2}\%$.

1919 The withdrawal of National War Bonds from offer on the 18th January produced large applications for a few days before that date, and this, with the ingathering of taxes, necessitated the Market coming to the Bank; during the last half of January and the first half of February about £6,000,000 was lent - 7 day Loans at 5% and 14 day Loans at 4%.

For the next three months money varied with Treasury Bill applications and Government disbursements, but the Market were only on rare occasions forced into the Bank. Rates both for money and Discounts having been regulated for so long, the business of the Market had become almost automatic. But at the end of May when Treasury Bills were withdrawn in preparation for a new Government Loan, the Market became disorganised and had to effect a re-adjustment. The result was an all-round reduction in rates; the Discount Rate fell to $3\frac{3}{16}$ - $3\frac{1}{4}\%$.

The Prospectuses of the 4% Victory Bonds and the 4% Funding Loan 1960-90 were out on the 13th June, and Treasury Bills issued prior to the 19th June were accepted in lieu of cash. The amount of Treasury Bills discounted was £15,000,000 at $3\frac{1}{2}\%$.

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1919 There was no borrowing by the Market from the Bank at the end of the half-year, Banks having no occasion to call as they were able to take back as much as they required from the Bank of England.

On the 14th July Treasury Bills were put on sale again - 2 months' at $3\frac{3}{8}$%, 3 months' at $3\frac{1}{2}$% and 6 months' at 4%, and the 3 months' Discount Rate accordingly rose to $3\frac{1}{2}$%.

The Bank ceased to allow 3% interest on Clearing Banks' 3 day deposits on the 22nd July and announced that no interest would be allowed on existing deposits after the end of the month, but $4\frac{1}{2}$% was still to be allowed on foreign money.

On the 30th July the Chancellor announced that Banks were no longer bound to allow no more than 3% on deposits. Money for a short time was very plentiful, but payments into the Bank of England of Loan funds held by other Banks soon absorbed supplies and the Market had to borrow £1,500,000 from the Bank in the middle of August at $\frac{1}{2}$% above Bank Rate. This rate had only been charged on one Loan (in January 1918) since September 1917.

In the middle of September extensive demands for credit in industrial centres caused scarcity of money and firm rates, and the Discount Rate on the 20th rose to $3\frac{13}{16}$%.

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1919 The Market borrowed £5,500,000 from the Bank between the 10th and the end of September, mostly at 5½%, the balance being on 3½% War Loan at the usual 1% under Bank Rate.

Upon the raising of Treasury Bill Rates on the 6th October to 4½% for 3 months and 5% for 6 months, the Market Rate became 4½%.

On the 20th October the Bank ceased to allow 4½% on foreign money and the consequent withdrawals made money very easy, but heavy Treasury Bill purchases soon used up surplus funds.

On November 6th Bank Rate was raised to 6%. The Federal Reserve Bank Rate was also raised, just before, and on the same day (vide Chapter I) Treasury Bill Rates were raised to 5½% for 3 and 6 months and the Market Rate became 5⅝ - 5¾%, but tight money in New York later in the month caused Discount Rates to be very firm and the Market Rate on the 17th November was 6%. This state of things made the Market and Banks cautious, but they were encouraged to function by an announcement that the Bank of England was prepared to discount Bills having 60 days to run at Bank Rate. Only one Discount House took advantage of this offer: B.W.Blydenstein & Co. discounting £306,000, the average currency of the Bills being 50 days. At the

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1919 same time three others, Brokers, borrowed £315,000 - £100,000 at ½% over Bank Rate and £215,000 on 3½% War Loan at 1% under Bank Rate. War Loan dividends swamped the Market with money at the beginning of December but Banks would not lend over the end of the year or buy Bills maturing after the 31st December.

At the end of the year a large business was done:-

Discounts £21,600,000 at Bank Rate

Loans £6,600,000 at ½% over Bank Rate.

Banks no longer having money with the Bank of England which they could take at the end of the year had to depend, as formerly, on maturing Bills and on calls from the Market.

1920 The year 1920 opened with the Discount Rate at $5\frac{9}{16}$ - $5\frac{5}{8}$%. Money was quite comfortable through January and the Discount Rate was unchanged, but in the first week of February tax-gathering and the demand for credit on the part of industry began to tell and the Market discounted £700,000 with the Bank at Bank Rate, the Bills averaging 14 days' currency. High money rates were current in New York and the Market Rate for Discounts rose to 5¾%. In the last half of February £5,100,000 was done at the Bank in Loans and Discounts for Banks and the Discount Market

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1920 at the usual rates. From the Banks Bills up to 45 days were taken and from the Market Bills averaging 14 days. The Market Discount Rate rose to 6% on the 23rd but was down to $5\frac{7}{8}$% at the end of the month.

Dividend payments made money easy in March and the Discount Rate relapsed to $5\frac{5}{8}$%, but apprehension of an immediate rise in Bank Rate put the rate up to $5\frac{7}{8}$% in the third week and some Houses quoted "subject to Bank Rate" on Thursday, the 18th; but when no change was made the rate went back to $5\frac{5}{8}$%. Towards the end of the month applications for June Treasury Bills were so heavy that a considerable business was done by the Bank:-

Discounts £16,000,000 Loans £9,000,000.

Bills for discount averaged 14 days and Loans were for 7, 8 and 9 days, both at the usual rates, viz., Bank Rate and $\frac{1}{2}$% above Bank Rate.

Money was plentiful through April, in the early part of the month particularly, owing to the enormous amount of Treasury Bills which matured compared with the amount of new ones placed. On the 15th April the Court, at last successful in getting the Chancellor's concurrence, raised the Bank Rate to 7%, the Treasury Bill Rate moving accordingly from $5\frac{1}{2}$% to $6\frac{1}{2}$%.

The Market Discount Rate was put up to $6\frac{5}{8}$%. After these rises Treasury Bill applications were heavy,

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1920 but money was not wanted until the middle of May when, owing to repayment of Ways and Means Advances, the Market had recourse to the Bank, and during the last fortnight the business done was:-

Discounts £218,000 Loans £1,300,000

at Bank Rate and ½% above Bank Rate, the discounted Bills averaging 14 days and the Loans being for 7 days. The Market Discount Rate rose to 6¾%, a rise in the Federal Reserve Bank Rate making the Market cautious.

Owing to payment of dividends money was sufficient in June until towards the end of the half-year, but the beginning of the difficulties of deflation made for caution.

At the end of June the business done was:-

Discounts	- Banks	£2,755,000
	- Market	£2,356,000
Loans to the Market		£17,696,000.

The Discounts for Banks were at various rates from 6½ to 7¼% according to the currency of the Bills: parcels ranging from 15 to 55 days. Market Discounts were at Bank Rate and Loans at ½% above.

Large applications for end of September Treasury Bills added to the strain.

During the greater part of the half-year there was a comfortable margin between Discount Rates and rates for short money. The Market Discount Rate

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1920 averaged $6\frac{1}{8}\%$ while that for short Loans was $4\frac{3}{4}\%$.

The Market Discount Rate in early July was $6\frac{5}{8}\%$ and money was not in much demand; it continued so until towards the end of the month when, as the holiday season approached, it became scarcer and the Market had to borrow a small amount from the Bank.

After that, until near the end of August money was comparatively abundant, Treasury Bill maturities exceeding applications, but a yet further upward movement in Bank Rate was feared. This, and the weakness of the New York Exchange, kept rates firm. During the last week of August, end of the month requirements and the contraction of credit affected by some repayment of Ways and Means Advances, made money short and a considerable business was done at the Bank, the Market borrowing £5,500,000.

Money was wanted early in September and got very tight towards the end of the month; a large business was done in discounting October Treasury Bills - £2,900,000 at $6\frac{3}{4}\%$ and £10,227,000 at $6\frac{7}{8}\%$. These fine rates were only granted on the understanding that the proceeds were to be applied in taking up fresh Treasury Bills. £3,410,000 was also discounted at Bank Rate and Loans were taken to the amount of £29,670,000 at $\frac{1}{2}\%$ above Bank Rate.

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1920 Such stringency was very unusual at this time of year. The reason appears to have been that tax collections were on a large scale and that large amounts of credit were tied up in unsaleable commodities: prices had fallen about 20 points since the peak of the previous April.

The Market Discount Rate at this time was 6¾%.

Renewed fears of a rise in Bank Rate came in October and there was again a reluctance to take up Treasury Bills. Ease in money, however, weakened the Discount Rate to 6⅝%. A Coal Strike on the 18th reduced the demand for credit by the check put upon all kinds of business, but Bill Rates did not fall away owing to the disinclination caused by the Strike to take Commercial Bills. Money was very plentiful at the end of the month and the Discount Market was stagnant.

No business was done at the Bank until the 23rd November, but Revenue collections and Treasury Bill sales then began to be felt, and between the 23rd and the end of the month £2,600,000 was lent to the Market at ½% above Bank Rate.

Liquidation of commodities and rumours of difficulties at home and abroad continued and intensified the apprehension that had latterly been felt in the City.

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1920 Dividend disbursements gave relief at the turn of the month, but the announcement of the liquidation of A.& W.Nesbit, Ltd., an old established firm in the Fur Trade, called fresh attention to the uncomfortable position produced by the recent fall in prices.

Surplus credit disappeared to some extent towards the middle of December owing to large Treasury Bill applications, but money was fairly comfortable until the last week of the year, when £2,400,000 was discounted at Bank Rate and Loans amounting to £12,000,000 were made at ½% above Bank Rate.

As in September, Bills were again taken for discount at under Bank Rate to enable March Treasury Bills to be applied for - £1,885,000 at 6 13/16% and £3,000,000 at 6 7/8%.

The Market Discount Rate during the month was round about 6¾%.

During the second half-year average rates were:-

Market Discount Rate 6 11/16% Short Loans 5 9/16%.

1921 The Market Discount Rate dropped to 6 5/8% at the beginning of 1921, and money was very plentiful, but the superfluity was quickly reduced by applications for Treasury Bills exceeding maturities, and this and rapid Revenue collection necessitated the Market's coming to the Bank on

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1921 the 27th January, when £3,125,000 was lent at $7\frac{1}{2}\%$ - repaid by maturing Treasury Bills.

On the 10th February tax-gathering again began to tell, and from then until the end of the quarter, the Market was in the Bank most of the time. There was outstanding for the Market at the 31st March:-

Loans £31,685,000 Discounts £1,300,000.

In February Bills having from 15 to 60 days to run were taken for discount and in March about 45 days was the limit. Not many of the longest dated Bills were put in, most parcels averaging about 30 days.

A large business was also done in discounting April Bills for the Market, the proceeds of which had to be applied in taking 3 months' Treasury Bills, viz:-

£1,400,000	at	$6\frac{5}{8}\%$
850,000	at	$6\frac{3}{4}\%$
3,100,000	at	$6\frac{7}{8}\%$
2,000,000	at	7%
£7,350,000		

Further discounting to the amount of £8,500,000 was done during February and March on account of Banks and customers, at rates varying between $6\frac{1}{2}\%$ and 7%: March, April, May and June Bills.

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1921 On the 12th March when the rate for 3 months' Treasury Bills was reduced to 6%, the 3 months' Market Rate fell to $6\frac{1}{4}$%, and at the beginning of April, to $6\frac{1}{8}$%.

£21,000,000 Treasury Bills were discounted during the first week of April for the Currency Note Redemption Account.

Money was very easy during the first half of the month, but in view of an announcement that Treasury Bills were again to be offered by tender, there were very large applications for 3 months' Bills at the 6% fixed rate; money consequently became quite scarce, and on the 14th April the Market was again in the Bank for £2,600,000 Loans, and for a further £4,000,000 on the 21st. As a result of the Treasury Bill tenders (the first of which, sold on the 21st April, were taken at an average of £5:19: 4%*), the Market Rate fell to $5\frac{7}{8}$ - 6% and in a few days to $5\frac{1}{2}$ - $5\frac{5}{8}$%.

Bank Rate was reduced to $6\frac{1}{2}$% on the 28th April, but this had little immediate effect on the Market as rates had already declined materially. Commercial Bills, owing to trade depression, had been very scarce for some time and the Bill Rate was about $5\frac{3}{8}$ - $5\frac{7}{16}$% by the middle of May. A little later, on a rumour that the tender system for

*The average rate had fallen to £3: 5: 3 by mid-December 1921.

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1921 Treasury Bills was to be dropped, the Market took more of these than they could carry and had to come to the Bank on the 19th for £2,600,000 Loans. Bill Rates firmed up considerably and rose to $5\frac{3}{4}$ - $5\frac{7}{8}$%. Before the end of the month a further £6,000,000 was borrowed at the Bank.

War Loan dividends in June caused the Bill Rate to fall away to $5\frac{1}{2}$ - $5\frac{5}{8}$%.

Scarcity of Commercial Bills was the chief feature up to the last week of June. On the 24th the end of the half-year borrowings began, but only a moderate amount was required, viz:-

Discounts	£335,000	at Bank Rate
Loans	14,200,000	at $\frac{1}{2}$% above Bank Rate
	£14,535,000	

Bank Rate was reduced to 6% on the 23rd June.

The average rates for short Loans and 3-months' Bills for the half-year were:-

Short Loans $5\frac{3}{8}$% 3 months' Bills $6\frac{1}{8}$%.

The Market Discount Rate was $5\frac{1}{2}$% at the beginning of July. Six months' Treasury Bills which had been substituted for twelve months' Bills at the same rate ($5\frac{1}{2}$%) at the end of June were withdrawn to the surprise of the Market on the 5th July, this step being taken as an indication that Bank Rate would shortly be reduced. Money conditions were

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1921 easy and the Market Rate for 3 months was down to 5% by the middle of the month.

The Federal Reserve Bank of New York's Rate and Bank Rate were reduced to 5½% on the 20th and 21st July respectively, and the Market Bill Rate went to 4½%. Money was abundant until the first week in August when demand for currency for holiday requirements had an effect on the supply of money, and, on the 8th August, the Market borrowed £3,200,000 at the Bank at the usual ½% above Bank Rate. The Market Bill Rate rose to 4¾%. There was no particular demand for money during the rest of the month and, with the exception of the discounting of £300,000 Treasury Bills by a Clearing Bank at 4½%, no further business was done by the Discount Office prior to the 31st August.

The principal work of the Discount Office during the War, after the first few months when the discounting of Bills of Exchange under Government guarantee was in progress, was in connection with pre-Moratorium Bill Advances; the ordinary work of the Office was less than in normal times and the discounting of Bills for customers or persons having Discount Accounts was discouraged, except for purposes of War Loan applications, on the Governor's instructions.

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Advances on Pre-Moratorium Bills

The first Advances under this Scheme, called "Advances on Pre-Moratorium Bills" ("Cold Storage" Bills as the Chancellor of the Exchequer named them) were made on the 17th October 1914, that being the first day on which Bills fell due for payment after the final extension of the Moratorium.

The Bank was not to claim repayment of any amounts not recovered by the borrowers from their clients for a period of one year after the close of the War, and the Bank's claim was to rank after claims in respect of post-Moratorium transactions. Drawers and endorsers were released from their liabilities as parties to these Bills, but their liabilities under any agreement with acceptors for payment or cover were retained. For some weeks before the 17th October a special Committee of Directors had been sitting to arrange the details of the scheme, and on the 2nd October a notice (vide Appendices) was issued describing the procedure to be followed. The Committee consisted of Mr.Campbell, Mr.Cole, Mr.Cokayne, Mr.Norman, Mr.Trotter and Mr.Lubbock, and the same Committee considered applications as they came in. Many were easily dealt with,

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but Balance Sheets and explanations were required in several cases before applications were finally allowed or rejected. The number of applications was 419, of which 314 were allowed, 92 were rejected (answer "Not approved" - no reason given) and 13 withdrawn.

As stated in the Announcement, the reason put forward for this scheme of relief was the breakdown of the foreign exchanges, which stopped remittances from abroad: but if Advances had been strictly confined to those whose difficulties were directly traceable to this cause, deserving applicants would have been shut out: in practice almost all applicants were accommodated who could put forward a sufficiently good reason for inability to meet their acceptances.

The total amount advanced was £74,429,409: 4:11. For the first month the daily amount was seldom less than £1,000,000, and was over £4,000,000 on several days: but after that Advances grew less and less until May 1915, when the last Advance was made.

In a few cases security was asked for: but no stipulation was made as to the class of security, whatever the applicants had to offer being usually accepted.*

*At the 31st August 1922 (one year after the official close of the War) there had been 16 failures, representing a sum owing of £197,000, of which £50,000 was interest.

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Repayments began on the 19th October.

At the end of May 1915 when the majority of the Advances had been running about six months, the question of the payment of interest arose, and it was proposed to send out statements showing the amount accrued and to say that if not paid interest would be capitalised. Objections were, however, made to capitalising half-yearly and it was finally decided to capitalise annually instead. The practice thereafter was to send out statements of account on the 31st October in each year, with the intimation referred to regarding the treatment of interest.

The largest borrowers were naturally the Accepting Houses, and they were reluctant to employ their own funds in payment of interest, as they anticipated that when the time came to claim from their debtors, mostly Germans, it would add to their difficulties if the Bank of England's books showed that interest had actually been paid. At the same time many borrowers were anxious to reduce their indebtedness to the Bank when possible, and it was in these circumstances that a proposal was made to the Treasury by the Accepting Houses that they should be allowed to make payments for interest into a separate account at the Bank, on which interest should be allowed at the same rate as that charged for Advances.

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This was agreed to, and what were called "Unallocated Accounts" were opened; interest being allowed at 2 per cent. above Bank Rate varying and capitalised annually on the 31st October, as in the case of interest on Advances. This of course was merely a book entry as an offset to interest accrued on Advance Account. The unallocated moneys could in no circumstances have been reclaimed, although the Accepting Houses were of opinion that it could in a case of bankruptcy. However, no such case arose and the point was never argued.

It was at first generally understood that payments to Unallocated Accounts would represent only interest accrued on Advances, but in practice the Bank put no limit to the amounts paid in so long as their total did not exceed the total of outstanding Advances and unpaid interest; several accounts were in fact, later on, set off against one another, the Unallocated Account with accrued interest exactly covering the Advance Account with accrued interest.

The total amount of unallocated money paid in was £20,510,243:13: 4. Large amounts were allocated by acceptors from time to time to repayment of Advances and payment of interest.*

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*On the 31st August 1922 the outstanding balance of unallocated funds with interest - a total of £10,443,928: 5: 5 - was allocated by the Bank, and Advances and interest consequently reduced to that extent. Unallocated Accounts were then finally closed.

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No specific record was made of the amount of Bills discounted under Government guarantee which passed into "Cold Storage", but certainly three-fourths and probably more of "Cold Storage" Advances provided for discounted Bills in the hands of the Bank. At the 31st August 1921 the amount of unpaid discounted Bills was £37,810, and the outstanding amount in "Cold Storage" was £15,331,000, including interest.

At the 31st August 1922, the date by which Advances on pre-Moratorium Bills became repayable, the amount of Advanoes outstanding, including interest, was about £4,000,000.

Advances were made to the London Branches of five enemy Banks in the interest of the holders of their acceptances, viz:-

Deutsche Bank	£1,598,000
Dresdner Bank	£2,590,000
Disconto Gesellschaft	£3,051,000
Anglo-Austrian Bank	£2,461,000
Oesterreichische Laenderbank	£1,715,000

At the outbreak of War, licences to carry on business were granted to these Banks under very strict limitations. Sir William Plender (of Deloitte, Plender, Griffiths & Co., Chartered Accountants) took charge as Controller to supervise all business but the foreign

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managers were retained. The Deutsche Bank Advance and interest was repaid in full in November 1915. In July 1918 it was decided that enemy Banks should be liquidated by the Official Receiver, and they then passed into his hands; and by the liquidation of assets the debts of the Dresdner and Disconto Banks were discharged in full. The Anglo-Austrian Bank was reconstructed as a British Company, and the Laenderbank as a French Company under the name of the Banque des Pays de l'Europe Centrale, and Shares and Certificates of Indebtedness were issued to the Bank of England in settlement of the respective debts.

The Treasury naturally wished to preserve the assets of these Banks for general reparation purposes. Claims against the Head Offices had therefore been lodged by the Bank with the Clearing Office for Enemy Debts, but these claims were disputed as not coming within the terms of the Peace Treaty, on the ground that, as the Advances were not made until October 1914, they could not be said to be pre-War. The Head Offices did not deny liability but wanted their assets in this country utilised before they were called upon to remit. When the debts were settled these claims were of course withdrawn.

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Post-Moratorium Bills

Advances for a small amount - £32,047 - were also made on post-Moratorium Bills which were also guaranteed by the Government. These Advances were re-paid out of the "Unallocated Accounts".

The account given above of the "Cold Storage" scheme may be concluded with an extract from an article by Mr.Walter Leaf, upon the effect of the War on the relative shares of the acceptance business secured by the Banks and Accepting Houses -

"In the old days of the London and Westminster "Bank, as I very well remember, even the business of "accepting Bills was looked upon with much shyness, and "there was a feeling that, by entering into it, a Bank "was encroaching upon the preserves of the large merchant "Banking Houses. That feeling had already passed away "before the War, and all the Banks willingly took up the "acceptance business when it was offered to them, es-"pecially by foreign Banks, chiefly American. The German "acceptance business was mainly in the hands of large "German Banks, who had established offices in London, and "whose acceptances were freely dealt with on the London "Market, though not by the Bank of England.

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"The outbreak of War in August, 1914, at once "upset the traditional system of overseas trade, and one "of the first effects was to throw almost the whole of "the acceptance business into the hands of the Banks. "The resources of the large Accepting Houses were to a "great extent locked up in debts due to them from Con- "tinental Houses which it was no longer practically "possible, or, indeed, legal for them to collect. The "position was publicly recognised by the 'cold storage' "plan, under which the Government, through the Bank of "England, took over these foreign liabilities and kept "them in reserve for future payment. The plan was "completely successful, and was a cardinal point in the "maintenance of the credit of Great Britain. But the "first effect of it was naturally to put a stop for some "time to further acceptance business by the merchant "Bankers; and the whole demand for this machinery, the "machinery on which depends the whole working of the "foreign exchanges, fell upon the Banks.

"It came, too, in a new form. The old system "of the acceptance payable at 90 or 120 days' sight was "largely superseded by cash payments in the form of "'sight credits'; the seller sent forward his documents "with a cheque on the purchaser's Bank; the purchaser of

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"the goods had to arrange with his Banker for payment on "presentation. The Banks, with their large liquid re-"sources, swollen during the course of the War by infla-"tion, were eminently in a position to facilitate this "system of payment, and it is probable that in this form "almost the whole of the foreign drafts for goods pur-"chased abroad passed through their hands."

"Financial Times", 16/3/1925.

The "Agreed Debt" (of the Government to the Bank)*

Between the 18th August and the 20th October, the Treasury repaid to the Bank of England the whole amount of the Agreed Debt, including the outstanding amount of Advances+ on pre- and post-Moratorium Bills, viz., £38,628,000, together with four-sevenths of the

*For further particulars of the Agreed Debt, which amounted to £109,605,040:12: 8 in all, see above in this Chapter.

+On terms contained in a Treasury letter dated the 13th August 1915 (already quoted in this Chapter).

Paragraph (2) of this letter concluded "...the Bank "to receive such remuneration for its services in con-"ducting the business on behalf of This Board as may be "arranged."

To this there is appended a pencil note as follows:- "It was decided by the Chief Cashier (Aug.1917) not to "raise the question of remuneration for the work of the "Bank in connection with pre- and post-Moratorium since "the date of the 'Agreed Debt'. The Discount Office "estimated the expenses incurred since that date at, "roughly, £1,000."

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interest accrued, viz., £1,022,000 in accordance with the arrangement that the Treasury were to receive three-sevenths of the interest and the Bank four-sevenths*; Bank Rate during the period was 5% and the interest charge 2% above it. It was also arranged that after the 18th August 1915 the Exchequer should receive the benefit of all payments received, whether on account of principal or interest. Such receipts were thereafter credited to an account opened in the Public Drawing Office called "Suspense Account - Agreed Debt - Government".

The amount repaid by the Treasury at the same time on account of outstanding unpaid discounted Bills was -

Principal £79,270 Interest £2,718.

Acceptances on account of Russian Clients

In March 1915 an arrangement was made between the British and Russian Governments by which Russian clients of British acceptors having "Cold Storage" Advances were enabled to discharge their indebtedness. The Russian made his payment to the Banque de l'Etat,

*This division of interest appears to be based on Treasury letter of 27th August 1914 already referred to.

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Petrograd, and that Bank instructed Messrs.Barings (Agents of the Russian Government) to hand over Russian Government Treasury Bills to the Bank of England. These Bills were discounted by the Bank on behalf of the British Government and the proceeds applied in repayment of Advances made to provide for the relative pre-Moratorium Bills.

In this way Advances and interest to the amount of £7,700,000 were repaid, and the effect was that the Russian Government obtained a Loan from the British Government on the security of Russian Treasury Bills, which Bills were of course still held by the Bank of England for account of the Treasury on the 31st August 1921.

The acceptors had to supply the Discount Office with the names of their Russian debtors and the amounts of the debts, and lists with particulars were sent by the Bank to the Banque de l'Etat; the acceptors at the same time advising their clients to make their payments to that Bank. Polish debtors were included in the lists but very few Polish payments were accepted by the Banque de l'Etat.

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Clearing Office (Enemy Debts)

Under the Treaty of Peace with Germany, Clearing Offices for the collection of debts were set up in Germany and in this country. The British Clearing Office opened in January 1920 and the German Office in the following May.

Similar provision was made later in the Peace Treaty with Austria.

Debtors and creditors were allowed to communicate with each other for the purpose of agreement, but payment might only be made through the Clearing Office.

Four claims were lodged by the Discount Office: in respect of the Dresdner Bank, the Disconto Gesellschaft, the Anglo-Austrian Bank and the Oesterreichische Laenderbank; but when the debts were settled otherwise the claims were of course withdrawn.

The claims of the Accepting Houses involved a good deal of work in the Discount Office, as it was necessary for the Bank to certify that the pre-Moratorium Bills provided for by Bank of England Advances were still in the hands of the Bank, and many thousands of Bills had also to be sent to the Clearing Office for inspection by a representative of the German Clearing Office. This procedure was, however, reversed later, the German representative coming to the Discount Office to inspect the Bills.

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Under a clause of the Peace Treaty with Germany, debts carried interest at the rate of 5 per cent. except in cases where by contract, law or custom the creditor was entitled to payment of interest at a different rate.

It appeared that very few British creditors who had taken Advances from the Bank of England were in a position by their contracts or by any law or custom to support claims to payment of interest at over 5 per cent., and consequently, having to pay the Bank 2 per cent. above Bank Rate, they feared they would be very large losers. They therefore decided to claim under another clause, contained in article 303 of the Peace Treaty, which reads - "If a person has either before or during the War become "liable upon a negotiable instrument in accordance with "an undertaking given to him by a person who has sub-"sequently become an enemy the latter shall remain liable "to indemnify the former in respect of his liability "notwithstanding the outbreak of War".

To decide the validity of this contention a case was brought by Messrs.Frederick Huth & Co. in the Mixed Arbitral Tribunal, a court set up under the Peace Treaty to settle disputed claims, and composed of one British representative, one German representative and a President chosen by agreement between the respective Governments.

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Messrs. Frederick Huth & Co. won their case and were consequently entitled to claim from their debtor the full amount of interest charged by the Bank, but the result was not accepted by Germans as generally applicable.

A further case was brought later by Messrs. Goschens & Cunliffe before the Mixed Arbitral Tribunal, and the creditors' claim was again allowed. The German debtor, besides contending that he was not liable to pay interest at 2 per cent. above Bank Rate, claimed that he had a right to participate in the interest at 2 per cent. above Bank Rate allowed by the Bank on unallocated money, but the decision on this point also was against him.

This test appears to have been regarded as conclusive, as no further cases were brought before the Court.

Foreign Money

As explained elsewhere in this Chapter (Bank Borrowings Section), it was decided in November 1917 to allow a preferential rate for foreign money. The depositing Banker or Finance House had to give a guarantee that the funds were held on account of allied or neutral clients.

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Lists had to be furnished of the names and domiciles of the clients and the amount of each individual balance, and these lists were referred to the Discount Office for scrutiny and classification.

The arrangement came to an end in October 1919.

Staff

When the heavy discounting and borrowing began at the end of July 1914, the Staff employed was 12, but this number was gradually increased until it amounted to 94 on the 14th August, the heaviest day, and was maintained at about 80 for the rest of the month. In September it was reduced to about 50, and increased to 60 in October when the "Cold Storage" Advances began.

From the beginning of 1915 the Staff was normal or below normal, except during some War Loan issues (about 80 in January - February 1917). At one time (August 1915) there were 4 Women in the Office out of a total Staff of 8 or 10.

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Treasury Bills and War Expenditure Certificates discounted on account of applications for War Loans.

In October 1916 £862,000 Treasury Bills were discounted for conversion into the National Loan of the French Government at varying rates, viz:-

Up to 75 days to run	at	5¼%
From 76 to 160 days	at	5½%
From 161 to 365 days	at	5¾%.

In January and February 1917 Treasury Bills and War Expenditure Certificates were discounted for conversion into the 5% War Loan, viz:-

£120,178,000	Treasury Bills at 5%
6,317,500	War Expenditure Certificates at 5½%
£126,495,500	

Between the 31st December 1917 and the 18th January 1919 £16,974,000 Treasury Bills were discounted at 4% for conversion into National War Bonds, and £669,800 War Expenditure Certificates were also discounted for the same purpose, mostly in connection with the first Series of these Bonds.

In June and July 1919 £15,104,000 Treasury Bills were discounted at 3½% for conversion into 4% Funding Loan and 4% Victory Bonds.