

JOINT SELECT COMMITTEE  
REPORTS OF LEGISLATIVE  
ASSEMBLY - 1927

**The Gold Standard and Reserve Bank of  
India Bill**

List of Reports of Select or Joint Committees  
presented in the Legislative Assembly in 1927.

Serial No.	Short title of the Bill.	Date of presentation.	Remarks.
1.	The Steel Industry (Protection) Bill.	7.2.27.	
2.	The Indian Merchant Shipping (Amendment) Bill.	26.3.27.	
3.	The Gold Standard and Reserve Bank of India Bill.	18.8.27.	Report of the Joint Committee.
4.	The Imperial Bank of India Bill.	18.8.27.	-do-
5.	The Indian Lighthouse Bill.	31.8.27.	-do-
6.	The Indian Securities (Amendment) Bill.	31.8.27.	
7.	The Indian Tariff (Amendment) Bill.	31.8.27.	
8.	The Indian Tariff (Cotton Yarn Amendment) Bill.	31.8.27.	
9.	The Bamboo Paper Industry (Protection) Bill.	31.8.27.	
10.	The Indian Forest Bill.	1.9.27.	
10.	The Indian Criminal Law (Amendment) Bill.	14.9.27.	

GOVERNMENT OF INDIA.  
LEGISLATIVE DEPARTMENT.

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We, the undersigned, Members of the Joint Committee to which the Bill to establish a gold standard currency for British India and constitute a Reserve Bank of India was referred, have considered the Bill and the marginally noted papers, and have now the honour to submit this our Report, with the Bill as amended by us annexed thereto.

2. The Committee met in Bombay on the 30th May, 1927, and sat continuously until the 4th June; and met again in Calcutta on the 18th July and sat until the 25th. Only one member of the Committee, who is unfortunately detained in England, has failed to attend one or other of the meetings, and on each occasion 25 out of 28 members were present.

3. We have made a number of changes in the Bill, several of considerable importance. We think, however, it would be more convenient to deal with the Bill clause by clause, referring to the amendments which we have made as they occur rather than to discuss matters of greater importance separately.

In this connection we desire to make it clear that, although we have attained unanimity on a large number of matters of importance, certain of the decisions at which we have arrived are decisions which a minority are not prepared to accept. We are, however, of opinion that, the decision of the majority being the decision of the Committee as a whole, it is undesirable to refer, as has been not infrequently the practice in the past, to particular decisions as being the decisions of a majority only.

4. *The title and preamble.*—We prefer the phrase "A Gold Standard" to the phrase "A Gold Standard Currency" as the Bill does not in fact purport to set up a gold currency, and a phrase which included that word might be liable to misconstruction.

*Clause 1.*—The latest date fixed for the commencement of the Act in sub-clause (3) of this clause as originally framed was the 1st day of January, 1929. We propose to alter this date to the 1st day of July, 1929, in view of the fact that it may prove inconvenient to inaugurate the Reserve Bank in the middle of the busy season, and, therefore, if the original date is retained, the Bank might have to be brought into being with undue haste during 1928.

*Clause 2.*—We have altered the definition of "bank note" in view of the fact that the bank note which it is proposed to issue will not be in the form of a promissory note payable to bearer on demand.

We have inserted a definition of "provincial co-operative bank" which is necessitated by the provision which we have made in clause 14 (now clause 11) for linking up the co-operative system with the Reserve Bank.

*Clause 4.*—This clause embodies what is perhaps the most important alteration which we have made. We have decided to substitute a Bank with capital supplied by Government in

place of a Bank with private share capital as was provided for by the Bill as introduced. The reasons which have led us to favour a change of this nature are as follows:—

In the first place, it was thought that a banking institution the primary object of which was the control of the credit and finances of the country would, if directed by a body responsible only to a number of private shareholders, tend to be controlled by vested interests, and would therefore fail to secure the confidence of the Indian public; and that its utility to the public might even be endangered by a conflict of interest within the management of the Bank between Indian and external capital.

Secondly, we consider that joint-stock principles are not suitable in the case of a Central Bank the management of which should be carried on with an eye more to the public interest than to the accumulation of profits for shareholders.

We note in connection with this clause that we have substituted throughout the Bill the words "crore" and "lakh" for the references to "millions" which the Bill originally contained.

The abolition of share capital involves a number of consequential changes in the Bill, the more important of which attention will be called in the course of our report. It involves, however, in the first instance, the omission of clause 5 and the subsequent re-numbering of other clauses.

*Clause 5 (originally clause 6).*—We think that provision should be made requiring the opening of a branch of the Bank at Rangoon. We also think that the previous approval of the Governor General in Council should be obtained to the opening of any new branch of the Bank outside India.

*Clause 7 (originally clause 8).*—We have effected important alterations in this clause, the first of which is the omission of the provision prohibiting members of the Indian or Local Legislatures from being nominated or elected as Directors of the Bank. The Committee consider that a provision of this kind would deprive the public of the services of a considerable number of those who are versed in public affairs and finance and are unable to subscribe to the view that a member of the Legislature would, by reason only of occupying that position, be unable to fulfil his duties as a Director of the Bank.

Secondly, we agree as to the desirability of the provision originally contained in the Bill excluding Directors of other Banks, on the ground that the Board of the Reserve Bank will have to exercise a close scrutiny over the financial position of all Banks likely to require financial assistance by way of rediscounts or advances, and also on the ground that the presence on the Board of the Reserve Bank of representatives of other Banks would enable those other Banks to obtain information regarding the business of their competitors; but we do not think the same

arguments apply in the case of Co-operative Banks, and we have accordingly provided that there should be no bar to the inclusion in the Board of Directors of Co-operative Banks.

Finally, we have added a clause (d) on the lines of clauses contained in certain other enactments establishing Central Banks, providing that no person shall be eligible either for nomination or election to the Board unless he is or has at some time been actively engaged in agriculture, commerce, finance or industry. We are of opinion that a clause of this kind, though possibly somewhat vague, is essential, and we have endeavoured by an *Explanation* to make it clear that a person who is or has been a director of any company or corporation shall be deemed eligible under the clause.

*Clause 8 (originally clause 9).*—The principal difficulty in connection with this clause has been to devise a scheme for the constitution of a Board in place of the original scheme under which a large majority of the Directors were elected by the shareholders. The Committee have considered at great length various alternative schemes placed before them and have eventually decided on a scheme which ensures a majority upon the Board of Indian elected members. The scheme provides for a Governor and Deputy Governor, two Directors nominated by the Governor General in Council, two Directors elected by the Associated Chambers of Commerce, two Directors elected by the Federation of Indian Chambers of Commerce, one Director elected by the provincial Co-operative Banks, three Directors elected by the Indian Legislature, three Directors elected by the Local Legislatures, and one officer of Government appointed by the Government. Considerable discussion took place as to the desirability of an electorate consisting of the Indian Legislature or the Local Legislatures. The Committee eventually favoured the view that, out of the proposed fifteen Governors, three should be elected by the elected members of the Central Legislature, and three by those of the Provincial Legislatures, because the said elected members represent together all the various interests of the people as a whole; and that it is reasonable and just that on the Reserve Bank of the country there should be some Governors elected by such general electorates, in addition to those who will be elected by the Chambers of Commerce and the provincial Co-operative Banks, which bodies represent special interests.

In addition to those provisions of the clause to which we have already drawn attention, we have provided that either the Governor or the Deputy Governor must be an Indian, and that the two Directors who are to be nominated by the Governor General in Council under clause (b) shall also be Indians.

The supplementary provisions which we have made in sub-clauses (2) to (7) of this clause include a provision that the Board shall be consulted as regards the appointment of the successors to the first Governor and Deputy Governor, and that all elections shall be held under the system of proportional representation by the single transferable vote. Sub-clause (7) gives power to the Governor General in Council to make such regulations as may be necessary for determining the manner in which the elections shall be held.

*Clause 10 (originally clause 11).*—We have inserted words to make it clear that meetings of the Board may be held more frequently than once in each month, and have provided that meetings at Calcutta shall be held at least three times in each year rather than once in every four months.

*Clauses 12 and 13* of the Bill as introduced have been omitted owing to the elimination of shareholders. Clause 13, which contained temporary provisions, was only necessitated by the fact that the constitution of a Board was necessary for the purpose of issuing the share capital.

*Clause 11 (originally clause 14).*—We have made a small amendment in sub-clause (1) to make clear what was always the intention, namely, that the Bank should be allowed to receive deposits, not bearing interests, from all persons without restriction.

*Sub-clause (2).*—This sub-clause as well as clause 12 (originally clause 15) is intended to refer to inland bills of the kind defined in section 11 of the Negotiable Instruments Act, 1881, and is in accordance with similar provisions in other Statutes constituting central banks. The restriction to scheduled banks of the facilities provided in this section and elsewhere is intended to give to the scheduled banks some compensating advantage for the obligation which the Bill imposes upon them to maintain compulsory deposits free of interest in the Reserve Bank. We have also thought it advisable to make it clear that the days of grace for which provision is made in section 22 of the Negotiable Instruments Act, 1881, may be added to the periods of maturity referred to in this clause and elsewhere.

As India is predominantly an agricultural country, it seems to us desirable to increase the scope of clause (b) of this sub-clause by raising the limit of bills and notes purchased or rediscounted from one-fifth of the total value of all bills and notes purchased or rediscounted by the Bank to one-quarter, and a similar and consequential amendment has been made in clause (c) of sub-clause (4).

*Sub-clause (3).*—This sub-clause as originally framed gave the Bank full discretion to purchase and sell the currencies of any foreign country having a gold standard. We think that such a wide discretion is undesirable and that operations of this nature should be confined to such countries having a gold standard as the Governor General in Council may designate for the purpose.

*Sub-clause (4).*—A small amendment has been made to make it clear that the loans and advances referred to include loans and advances repayable on demand.

*Sub-clause (8).*—We have drafted this sub-clause to take the place of original sub-clauses (9), (9) and (10) which provided that the Bank might purchase and sell certain securities for the purpose of the investment of its capital or Reserve Fund. Capital and the Reserve Fund, however, although shown separately in the statement of the Banking Department, would necessarily both form part of the general funds of that Department, and it might be difficult to say in respect of any particular transaction whether it was a transaction on behalf of capital or of the Reserve Fund, or partly on behalf of the one and partly of the other. The only object of the clause is in fact to limit the total amount of securities

which may be held and not to lay down the purpose for which such securities may in each case be purchased. Further, the date of the purchase of securities upon which emphasis was laid in sub-clause (10) as originally drafted is irrelevant, the only consideration which is of any importance being the remaining time which the securities have to run. Finally, our re-draft renders it possible for securities held by the Bank to pass automatically from the long-dated to the shorter-dated class which would have been precluded by the use of the words "from the date of their purchase" occurring in the proviso to sub-clause (10) of the original draft.

*Sub-clause (13) [originally sub-clause (15)].*—We think that the power of the Reserve Bank to open accounts and act as agents of other banks should be restricted to central banks which are the principal currency authorities in their respective countries and among which we include the Federal Reserve Banks in the United States of America.

*Sub-clause (14).*—It is essential that the Bank should have power to borrow in London in view of the obligation imposed upon it to keep the Secretary of State in funds, and it is almost as essential that the Bank should be able to borrow in India so as to facilitate the control of credit. The limitation which this clause as now drafted by us provides will prevent the Bank from using its power of borrowing in order to compete with other banks for fixed deposits.

*Sub-clause (16) [originally sub-clause (17)].*—We considered the desirability of making specific mention in this sub-clause or possibly elsewhere of the power of the Reserve Bank to supervise clearing house business. We, however, consider this to be so clearly a banking function which may suitably be undertaken by the Reserve Bank that it is hardly necessary to make special mention of it.

*Clause 12 (originally clause 15).*—It is admitted that the power which this clause proposes to give to the Reserve Bank to operate in the bill market is necessary to enable the Bank to fulfil its responsibility for conserving the money market and for enforcing its discount policy. But we consider it necessary to lay down distinctly that the Bank is not entitled to enter into indiscriminate competition with commercial banks, and for this reason we have provided that action under this clause must be approved of by a majority of the Board of Directors and have indicated the purposes for which alone they should approve the undertaking of such operations.

*Clauses 14 and 15 (originally clauses 17 and 18).*—We think it desirable that the Reserve Bank should have control of all Government balances, not excluding those of such of the Local Governments as may have the custody and management of their own provincial revenues, and we have provided accordingly in this clause. We note that an amendment of section 23 of the Government of India Act will be necessary to enable the Secretary of State in Council to utilise the services of the Reserve Bank and to keep his balances with the Reserve Bank instead of with the Bank of England, and we understand that the necessary amendment will be undertaken as soon as this Bill is passed.

*Clause 18 (originally clause 21).*—We regard it as a matter of the first importance that the

transition to a gold standard should be conspicuously marked by the introduction of a standard gold coin which we propose to call a *mohur*. We think that it is only by the introduction under a statutory enactment of a legal tender gold coin that the reality of the gold standard can be brought home to the public in India. We have accordingly provided in clause 48 for an amendment of the Indian Coinage Act which will give the Governor General in Council the statutory power of coining a *mohur*, which will contain 169.5024 grains of fine gold, being the equivalent of the gold value of twenty rupees, to be the standard of value, under the new system. We realize, however, that it is not possible to give the public the right of having gold bullion coined into *mohurs* at the mints. Whilst, therefore, we have recognized, by the amendments which we have made in this clause (clause 18) that the new *mohur* is to be the standard of value and a definite proof that Indian currency has been linked to gold, we have provided that the amount of *mohurs* to be coined shall be in the absolute discretion of the Governor General in Council.

*Clause 19 (originally clause 22).*—We think it desirable that the bank notes to be issued by the Reserve Bank should bear the signature of an officer of Government and also, if possible, an engraving of the portrait of His Majesty, in order that the public may not lack confidence in treating them in every way as legal tender. In view of the fact that the bank notes are to be guaranteed by the Government of India, we understand that it will be possible to meet our desire in this matter.

*Clause 22 (originally clause 25).*—We observe that the present practice by which a note may be cut into two halves and the halves, when pasted together, accepted as legal tender remains unaffected.

*Clause 23 (originally clause 26).*—We have altered the proviso from the form in which it stood for many years in order to make it clear that cheques upon overdrawn accounts are not prohibited by this clause.

*Clause 25 (originally clause 28).*—In sub-clause (2) of this clause we have decided to add to the proviso a condition that, of the proportion of gold coin and gold bullion and gold securities which the clause requires to be held as part of the Reserve after ten years, at least one-half shall consist of gold coin or gold bullion. Our object in making this amendment is to ensure that the free flow of gold into India shall not be checked by any tendency on the part of the Reserve Bank to substitute gold securities for coin or bullion.

In sub-clause (3) of this clause we have increased by 25 crores each of the limits of the amount of rupee coin which may be held at various periods in the Reserve. We understand that the amount of silver coin and bullion now held in the Paper Currency Reserve is 108 crores—an increase of no less than 23 crores as compared with the amounts so held at the time at which the Royal Commission made their recommendations. It would clearly be impossible, without a radical disturbance of the silver market of the world, to get rid of this surplus silver within a period of ten years, and we feel sure that the change is one which would have commended

itself to the Royal Commission had they envisaged the problem as it has now presented itself to us. Further, the obligation imposed on the Bank by clause 31 to supply rupees freely to the public on demand might in times of emergency require a larger reserve of rupee coin than the maximum which the Bank was required to keep by the original provisions of this clause. Finally, we desire to express our view that the Government should be extremely cautious as to the time at which, and the amounts in which, surplus silver should be offered for sale.

In sub-clause (4) of this clause we have made an amendment consequential upon the decision, to which we shall presently refer, to retain the sovereign and the half-sovereign as legal tender coins; we have also provided for the valuation of the new *mohur* for the purposes of the Reserve.

In sub-clause (5) of this clause we have raised from one-half to 85 per cent. the proportion of the gold coin and gold bullion held in the Reserve which must be kept in British India. We agree that under certain circumstances it may be advisable to allow gold belonging to India to be located outside India, and we think a maximum of 15 per cent. should be sufficient for this purpose. The possibility of raising the proportion in this manner is largely due to an amendment which we have made in clause 32 whereby the provision for the sale of gold for delivery outside India has been eliminated.

Sub-clause (6) of this clause defines the gold securities which may be held as part of the Reserve. Following upon our decision to which we have already referred in our remarks on sub-clause (3) of clause 11, we have decided to limit these securities to securities which are not only payable in the currency of a gold standard country whose parity with gold has been firmly established but which are also liabilities of such a gold standard country. We have also omitted clause (b) which allowed the holding in the Reserve of bills of exchange drawn on foreign gold standard countries. We agree with the opinions which have been freely expressed that any such provision would be an unnecessary and undesirable feature of a gold reserve.

Finally, we have provided that the sterling securities of the Government of India shall be included among the gold securities which may be held as part of the Reserve.

*Clause 31 (originally clause 34).*—Though we agree that there is good reason for removing the statutory convertibility of notes into silver coin, we have been assured that the stock of rupees for many years to come will be sufficient to enable the Bank to maintain the existing practice of making rupee coin freely available for purposes of circulation.

*Clauses 32 and 33 (originally clauses 35 and 36).*—We have replaced the obligation to sell gold at foreign centres by a permanent obligation to sell gold exchange in any gold standard country notified in this behalf by the Government of India. We consider the obligation imposed on the Reserve Bank to keep the value of the internal currency stable will be made capable of fulfilment by this provision, while at the same time it will make it possible for a greater proportion of gold to be held in India—a point to which we have already referred in connection with clause 25.

The original figure for a minimum purchase or sale of 1,065 tolas is based merely on the fact that the weight of commercial bars in London is 400 ounces. We have accordingly reduced this figure in both cases to 250 tolas as being a figure more suited to Indian conditions.

We have made slight amendments of a purely drafting nature in the proviso to sub-clause (3) of clause 32 and in sub-clause (2) of clause 33.

*Clause 38 (originally clause 41).*—In the Bill as introduced the obligation to maintain balances with the Reserve Bank was imposed only on a limited number of the more important banks in the country. We consider, however, that, if the Reserve Bank is to exercise its proper control over the credit system of the country, this obligation must be extended as widely as possible and should fall upon every bank of any standing or importance doing business in British India. This is in effect a reversion to the actual proposals of the Royal Commission. To facilitate the computation of the requisite proportion of the demand and time liabilities of the banks affected, we have inserted a new sub-clause (2) on the lines of similar provisions in the Federal Reserve system of the United States of America, whereby the calculation will be made on a daily average which will be computed in respect of half-monthly periods.

Our decision necessitates a provision which will be found in sub-clause (7) of this clause to enable the Governor General in Council to include among the scheduled banks any bank which attains the necessary qualifications; and, similarly, to exclude any bank which falls short of that standard. We have omitted the provision which was contained in sub-clause (4) of the original clause 41 requiring a summary of the monthly return of each bank to be published, as we agreed with a widely expressed opinion that the particulars required for the purposes of this clause are only a partial statement of the bank's affairs and that their publication might mislead the public as regards the financial position of a bank.

*Clause 40 (originally clause 43).*—The amendments made in this clause are consequential on the abolition of the provision for share capital. We have been furnished with a rough statement of the estimated cost to the public exchequer of the loss represented by the loss of interest on the present Gold Standard and Paper Currency Reserves which is at present credited to public revenues; this statement shows that the cost is not likely to be so great as to require the imposition of additional taxation or the retardation of the final extinction of provincial contributions to the central revenues.

*Clause 42 (originally clause 45).*—The alterations in this clause are purely consequential upon the abolition of share capital.

*Clause 48 (originally clause 51).*—We have explained the proposal to authorise the coining of a new *mohur* in our remarks upon clause 18, and we have similarly alluded, in our remarks on sub-clause (4) of clause 25, to our decision to re-establish the sovereign and half-sovereign as legal tender.

Some members of our Committee, whilst agreeing not to raise during the discussions of the Committee the question of the ratio of the rupee to gold, desired it to be made clear that they are not thereby precluded from raising this

matter at the stage when the Bill will be taken into consideration. Provision, therefore, for fixing the rupee value of the sovereign at Rs. 13½ has been adopted by the Committee subject to this reservation.

Other amendments which we have proposed in the Indian Coinage Act are consequent upon the decision in respect of the *mohur* and of sovereigns and half-sovereigns.

*The First Schedule.*—We have added considerably to the number of banks included in the First Schedule. We desire, however, to offer certain suggestions. In the first place the list of banks is based upon the report of the Registrar of Joint Stock Companies for 1925-26 and will require to be brought up to date. We think it possible that some banks may have been included which are undergoing or about to undergo reconstruction and are not at the moment receiving fresh deposits from the public. We think that the question should be considered of granting power to the Government of India to grant some temporary relaxation of the provisions of clause 38 in such cases, which would necessarily be accompanied by a corresponding withdrawal of rediscount facilities under clause 11.

*The Second Schedule.*—We have made two amendments of substance in the conditions contained in this Schedule. We have, in the first place, reduced from 25 years to 20 the period during which the Imperial Bank should be entitled to claim balances free of interest or at a nominal rate of interest, although we maintain the period of 25 years as the period during which the contract shall be in force. Secondly, we have omitted clause (5) of the conditions, which provided for additional payments in respect of the opening of additional branches as apprehension

has been expressed that provision of this kind might prove detrimental to the interests of indigenous banking.

5. We have made a number of other amendments in the Bill which are either of a purely consequential or of a drafting nature and to which we do not think it necessary to refer in detail.

We desire to add that the question was raised as to the continuance by the Imperial Bank of India of the facilities which have hitherto been accorded to Co-operative Banks, and the Committee are of opinion that such facilities should be continued. We have received an assurance from the Government that the possibility of providing for this matter either in this Bill or in the Imperial Bank of India (Amendment) Bill will be considered in due course.

6. We annex to this report copies of the following documents:

- (i) memorandum on gold currency supplied to the Committee by the Honourable the Finance Member,
- (ii) memorandum containing the rough draft of the conditions which are contemplated in clause 14 of the Bill in respect of the agreement between the Government and the Reserve Bank also supplied by the Honourable the Finance Member,
- (iii) note by the Financial Secretary on the relations between Co-operative Banking and the Reserve Bank, and
- (iv) the rough statement referred to in our remarks on clause 40.

7. The Bill was published as follows:—

*In English.*

	Gazette.			Date.
	Gazette of India Extraordinary	..	..	17th January, 1927.
	Fort Saint George Gazette	..	..	1st February, 1927.
	Bombay Government Gazette	..	..	10th February, 1927.
	Calcutta Gazette	..	..	10th February, 1927.
	United Provinces Gazette	..	..	29th January, 1927.
	Punjab Government Gazette	..	..	28th January, 1927.
	Burma Gazette	..	..	12th February, 1927.
	Assam Gazette	..	..	10th March, 1927.
	Bihar and Orissa Gazette	..	..	16th February, 1927.
	Coorg District Gazette Extraordinary	..	..	25th February, 1927.
	Sind Official Gazette	..	..	17th February, 1927.

*In the Vernaculars.*

Province.	Language.			Date.
Madras	Tamil	..	..	22nd March, 1927.
	Telugu	..	..	22nd March, 1927.
	Hindustani	..	..	19th April, 1927.
	Kanarese	..	..	5th April, 1927.
	Malayalam	..	..	29th March, 1927.
Bombay	Marathi	..	..	26th May, 1927.
	Gujarathi	..	..	19th May, 1927.
	Kanarese	..	..	19th May, 1927.
Punjab	Urdu	..	..	25th February, 1927.
Coorg	Kanarese	..	..	2nd May, 1927.
Sindh	Sindhi	..	..	7th April, 1927.

8. We think that the Bill has not been so altered as to require re-publication, and we

recommend that it be passed as now amended.

BASIL P. BLACKETT.\*

CHARANJIT SINGH.\*

A. C. McWATTERS.\*

UMAR HAYAT.\*

A. F. L. BRAYNE.\*

P. C. D. CHARI.

J. W. A. BELL.\*

M. SUHRAWARDY.\*

KUMARSANKAR RAY CHAUDHURY.

PHIROZE SETHNA.

MANMOHANDAS RAMJI.

GOVIND DAS.\*

V. RAMADAS PANTULU.\*

RAM SARAN DAS.

JAMNADAS M. MEHTA.\*

N. C. KELKAR.\*

R. K. SHANMUKHAM CHETTY.\*

KIKABHAI PREMCHAND.\*

PURSHOTAMDAS THAKURDAS.\*

MADAN MOHAN MALAVIYA.

FAZAL I. RAHMIMTOOLA.\*

A. RANGASWAMI IYENGAR.\*

HUGH G. COCKE.\*

V. K. ARAVAMUDHA AYANGAR.\*

GHAZANFAR ALI.\*

*The 18th August, 1927.*

\* Subject to minute of dissent.



## APPENDIX I.

## MEMORANDUM ON THE PRACTICABILITY OF A GOLD CURRENCY FOR INDIA.

The standard of value which the Gold Standard and Reserve Bank Bill establishes for India is a gold rupee of 8.47512 grains. Under the plan proposed, there will be no gold coin in India representing that standard nor any gold coin of any kind in circulation. The silver rupee will remain as at present unlimited legal tender and Reserve Bank notes will also be unlimited legal tender. The standard will be a notional gold rupee just as, *e.g.*, in Germany the standard is a notional gold mark. The legal tender media of circulation will be kept stable in relation to gold by the operation of the law requiring the Currency Authority to buy gold and to give gold bullion in exchange for legal tender (gold exchange up to 1st January 1931 and gold bullion thereafter) subject to specified conditions.

2. It is objected that the notional gold rupee is an abstract idea which the average mortal finds extreme difficulty in assimilating or in dissociating from the silver rupee which connotes a silver standard and does not, by its recent history, give him any kind of confidence in its future stability in terms of gold. It is claimed that India ought to have a visible symbol of the gold standard and of her admission among gold standard countries, and that this might be done fairly simply by giving India a new standard of value and a new unit of account, *e.g.*, a 10 rupee gold mohur containing 84.7512 grains of gold. It is urged that this change, though striking in form, would involve no modification of substance in the Government's proposals so long as the discretion as to the amount of gold mohurs to be coined and put into circulation is vested entirely in the Government.

3. Such a change would give India a gold coin as her standard of value. But it would not necessarily result in any gold coins being minted and put into circulation either immediately or at any future date, seeing that the Government would have complete discretion whether or not to coin gold mohurs. Some of the advocates of a gold currency, therefore, go further and demand that either at once or after a certain date, the Indian mints should be opened to the coinage of gold brought to them by the public, and that an obligation should be put upon the Currency Authority to redeem rupees and notes in gold coins on demand.

4. The question to which an answer is demanded is the question why India should not have a gold currency in circulation either—

- (a) in the form of gold mohurs minted by the Government and put into circulation at its discretion, or
- (b) in the form of sovereigns and half sovereigns which would be legal tender though not minted in India, or
- (c) in the form of gold mohurs minted by the Indian mints from gold brought to them by the public.

5. As is well known, there are strong arguments for the view that a gold currency in circulation in any form is a useless extravagance and that the gold bullion standard with no gold coins in circulation in any form is preferable to

a gold currency standard. It is not open to question that the trend of currency development in western countries since the War has, for the time being at least, been away from the use of a gold coin in circulation. It is not proposed, however, in this note to develop the arguments for and against the adoption of a gold currency standard. The question whether a gold coin in circulation is practicable in India will be examined entirely apart from the question whether it is desirable.

6. There is one major difficulty in the way of any proposal to give India a full value gold coin in circulation. So long as conditions in India are not radically changed from those which at present exist, a full value gold coin will not in practice remain in circulation for the ordinary purposes of monetary transactions but will inevitably be withdrawn from circulation for the purpose of being melted down or hoarded, that is, locked up for indefinite periods as a store of value. So long as the social customs and habits of the people are not radically modified, there must always be in India a very large demand for the precious metals for non-monetary purposes. If, therefore, now or at any date in the immediately foreseeable future the Currency Authority were to issue a full value gold coin, say, a 20 rupee gold-mohur containing 169.5024 grains of gold, there will always be a demand for this coin for non-monetary purposes which will prevent its circulation as money, because in almost all circumstances the gold mohur would be the cheapest, as well as generally speaking, the most convenient, form in which gold would be obtainable. The gold required by the goldsmiths for making into gold bangles and ornaments would be obtained by them by melting down gold mohurs. Even if the fact that gold mohurs were freely available in exchange for legal tender and could be freely changed back into legal tender, led to ornaments being made out of strings of gold mohurs instead of out of melted mohurs, the gold mohur would none-the-less cease to function as currency. For the purposes of hoarding, gold coins might tend to be preferred to gold bullion, but even so, they would not function as currency in circulation. If, therefore, gold coins are to function at all as currency, some solution must be found for this major difficulty.

7. The average annual demand for gold for non-monetary purposes in India is not less than 20 to 30 crores of rupees worth, and in some years rises to twice the larger figure or even higher. If gold coins are to function as currency at all, they (or their equivalent in gold bullion) must be available in quantities sufficient to meet the maximum demand for gold for non-monetary purposes in all circumstances with a surplus over to supply the gold coins which are to remain in circulation. It can hardly be doubted that an attempt to supply gold mohurs in such enormous quantities is not a satisfactory solution of the difficulty above-mentioned. In the first place, the accumulation of a reserve sufficient to stand up against the maximum demand will obviously be an operation which would have to be spread over a very long period and would be very costly owing to the loss of interest obtained. The reserve would have to be big enough not merely to supply the maximum

demand but also to ensure that the minimum amount of gold left in the reserve at any time should be sufficient to maintain undiminished confidence in the stability of the currency. In addition to the heavy cost due to loss of interest there would be a large annual charge to the Currency Authority, that is, to the taxpayer for importing gold. The Currency Authority would get Rs. 20 per mohur for each mohur issued, but the cost of importing the gold would amount to something appreciably more than 20 rupees (approximately Rs. 20-4-3). If, for example, the average amount of mohurs issued yearly were 80 crores of rupees worth of gold mohurs and the average rate of exchange were 1s. 6d. per rupee, the loss on importing gold would amount to about 40 lakhs of rupees per annum. A small seignorage charge to cover the cost of minting would no doubt be fully justified. But if the gold mohur is to be the standard coin and standard of value for India, it would clearly be impossible to charge a seignorage to cover the cost of importing gold. The alternative of issuing an overvalued gold mohur is discussed below.

8. The only method by which the Currency Authority could reduce this heavy charge upon the taxpayer would be by attempting to keep exchange always up to the gold import point, say, 1s. 6-3/16d. It could not do this successfully, if at all, without keeping bank rate always high and rigidly controlling the supply of legal tender money and of credit in a way that would result in continued stringency in the money market. The cost to the country of such action will be at least as serious as the cost to the taxpayer of the alternative.

9. It is not possible to get over this difficulty by relieving the Currency Authority of the liability to redeem rupees and notes in gold mohurs. It is sometimes suggested that the difficulty could be avoided by simply opening the mints to the coinage of gold mohurs out of gold brought to them by the public, while not putting any obligation upon the Currency Authority to give gold in exchange for legal tender except at the price as proposed in the Gold Standard and Reserve Bank Bill corresponding to the gold export point. Any such attempt would obviously result at once in gold mohurs being permanently at a premium as compared with legal tender with the result that they could not possibly function as currency. On the contrary, it would obviously be necessary to impose on the Currency Authority an obligation to sell gold in exchange for legal tender at par not only in the form of gold mohurs but also in the form of bullion, in order to avoid the absurdity and the cost of continually minting gold into coins to be melted down as soon as they were issued.

10. There is a theoretical alternative method for surmounting the major difficulty referred to above, namely, the issue of an over-valued gold mohur. For example, if instead of coining a gold mohur of Rs. 20 containing  $20 \times 8.47512 = 169.5024$  grains of gold, the Government were to mint a gold mohur containing only  $165\frac{1}{2}$  grains, such a coin could be issued to the public as the equivalent of 20 rupees, if the public would accept it as such, without any loss to the taxpayer, since the difference of 4 grains of gold between the monetary value and the gold value of the coin would be

sufficient to meet the cost of importing the gold and minting it into coin, even if exchange were at the export gold point at the moment of import of the gold. The charge of about 4 grains of gold per mohur would be regarded as a seignorage charge, and its theoretical justification would be exactly the same as the justification given in Schedule I to the Currency Commission's Report for the 'selling rate of Rs. 21-11-9 per tola for gold for delivery in Bombay under the plan for a gold bullion standard proposed by them and adopted in the Government's Gold Standard and Reserve Bank Bill.

11. A gold mohur of  $165\frac{1}{2}$  grains might well remain in circulation as legal tender for 20 rupees. It would not tempt the goldsmiths who would in normal circumstances be able to get a slightly larger amount of gold for melting by buying gold bullion in the market for 20 rupees. Such a coin might still be used for hoarding as being more convenient and more easy to convert back into money than gold bullion, but the hoarder would generally prefer to keep his hoard in bullion or in sovereigns as these would represent full value in gold, and whenever exchange was above the gold export point, he could purchase rather more than  $165\frac{1}{2}$  grains of gold for 20 rupees.

12. If therefore the demand for a gold coin in circulation is simply a demand for the convenience of having such a coin in circulation, this method offers a means of meeting it, and when the time arrives and India's gold reserves are strong enough to be able to spare gold for circulation as currency the plan of a gold mohur of  $165\frac{1}{2}$  grains will be worthy of careful consideration provided that those who desire a gold currency still desire it and are satisfied that the public want and will accept such a coin. It must however be made clear that a 20-rupee gold mohur of  $165\frac{1}{2}$  grains cannot become the standard of value for India. That standard of value would still have to be the notional gold rupee of 8.47512 grains. The 20-rupee gold mohur would simply be an additional and possibly a very convenient form of unlimited legal tender. Further, in times of contraction of currency, gold mohurs of  $165\frac{1}{2}$  grains coming back from circulation into the Currency Reserve would not be entirely satisfactory from the standpoint of the Currency Authority, since they would not be convertible into 20 rupees worth of gold bullion for purposes of export. If held in the Currency Reserve, as they doubtless would be at times, they would always leave, if valued at 20 rupees, a small margin of the liability for outstanding notes and rupees uncovered by gold. A fiduciary element corresponding to the fiduciary element in the silver rupee, though trifling in amount by comparison, would still remain in the gold mohur of  $165\frac{1}{2}$  grains. In other words the standard would still be a gold bullion standard and the gold mohur of  $165\frac{1}{2}$  grains would still be, to a small extent, a token coin, not a full value gold coin, and this solution of the difficulty though worthy of full consideration does not meet the demand in so far as it is a demand for a full value gold coin.

13. In so far therefore as the demand for a gold currency standard is a demand for a full value gold coin in effective circulation, it appears that the only possible answer to the demand

is that it is frankly impracticable in the immediate future. How long this condition of affairs will remain cannot be forecasted. The chief hope of reducing the demand for gold in India for non-monetary purposes lies in the development of the habits of banking and investment. It is no doubt the view of many competent judges that once India has a full value gold coin freely available to her, she will be far more ready than at present to make use of gold productively, and will bring large quantities of gold out of hoards for use as money. But even if this claim is granted, the process of bringing gold out of hoards must clearly be a slow one and it is certain that, quite apart from the demand for gold for hoards, the demand for gold for melting down into ornaments will remain very large. So long as this is the case any attempt to put a full value gold coin into circulation involves the import by the Currency Authority at the expense of the taxpayer of large quantities of gold which will immediately be taken out of circulation and melted down. The double cost of keeping up the gold reserves to the figure necessary for meeting this non-monetary demand and of continually importing gold for issue at a loss remains a formidable obstacle.

14. It is not clear how far those who look to a gold currency as a means to bring gold out of hoards would regard the plan of issuing a 20-rupee gold mohur of 165½ grains as satisfying their condition. As has been shown, such a gold coin might become an effective part of the circulation and once the necessary gold reserves have been built up, a gold currency would be a practicable proposition. If, however, it is upon the ready availability of full value gold coins as currency that the rapid development of the banking and investment habits depends, a larger reserve and a longer delay will be necessary though it will no doubt still be desirable to introduce a full value gold coin as soon as may be. But it is in any case evident that the gold reserves required either for the purpose of an overvalued gold coin or for that of a full value gold coin are not at present in the possession of the Currency Authority, and the first step to take is therefore in any event to set to work to build them up quickly. This is what is proposed by the Government in the Gold Standard and Reserve Bank Bill, and a strong argument is thus offered for the gold bullion standard. It is unnecessary for the present to arrive at a final decision on the question whether, if the introduction of a gold currency is ultimately held to be desirable for India, the gold coin to be minted should be a full value one or a slightly overvalued one. This decision may well be deferred till the gold bullion standard has been in operation for some time and the gold reserves have accumulated and further experience has been gained of the extent to which the banking and investment habits have been developed. Nothing is gained and something is lost by attempting to arrive at a decision on this point now.

15. If the reasoning of this memorandum is correct, the answer to the third part of the question in paragraph 4 may now be given. It is impracticable to secure for India a gold currency in circulation for some long time to come by opening the mints to the coinage of a full value gold coin in exchange for gold brought

to them by the public. It might be possible at an earlier date to put into and keep in effective circulation a slightly overvalued gold coin by opening the mints to the coinage of such gold coins from gold brought to them by the public. But the first step in any event is to adopt the gold bullion standard and build up the gold reserve, since all the available gold is required for the present inside the reserve, and postponement of the choice between the full value and the overvalued gold mohur will enable the decision to be taken, if and when desired, in the light of fuller experience.

16. The answer to the first part of the question in paragraph 4 is contained in the answer to the third part. It would of course be possible to legislate at once for the minting of a gold coin which the Government would be under no obligation to mint for the present in any but the smallest quantities—a few specimens only. This would not however give India a gold currency in circulation and, besides requiring an immediate decision on the controversial question whether a gold coin is ultimately desirable, involves a premature choice between the alternatives of a full value and a slightly overvalued coin in favour of the former thus actually postponing the date at which it may eventually be possible to have a gold coin in effective circulation in India.

17. The second part of the question in paragraph 4 relates to the use of sovereigns and half sovereigns as legal tender in India. The objections to this course are partly but not entirely the same as those to the other two courses. Even though demonetised, sovereigns can of course be freely imported into India and will continue to be so imported, but they will not function as currency. Monetisation, however, will not make them function as currency under the Gold Bullion Standard for exactly the same reasons which would prevent a full value gold mohur from functioning as currency, viz., the fact that they would in normal circumstances be worth more as bullion than as money and would consequently command a premium over other forms of legal tender. There is however a further objection to monetisation of the sovereign under the Gold Bullion Standard. Just as the presence in hoards of a large quantity of silver rupees which are unlimited legal tender and may at any time come back into circulation complicates the task of the Currency Authority in controlling the supply of currency and weakens its effectiveness, so would the presence of large quantities of sovereigns which are legal tender but are not, save in exceptional circumstances, functioning as part of the medium of circulation impair the power of the Currency Authority and the efficiency of its action. It is desirable to avoid a drain on the gold assets in the reserves and still more a demand for gold from the Currency Authority even at the higher of the two prices fixed by the Gold Standard and Reserve Bank Bill not in the circumstances envisaged by the Bill when it is really required to support the exchange value of the rupee, but simply for the purpose of facilitating the import of sovereigns into India. Gold can be freely minted into sovereigns in South Africa on the demand of the public (this being possible there because South Africa is a regular exporter of gold) and in certain circumstances it is conceivable that

large quantities of sovereigns would be imported into India with serious reactions on the efforts of the Currency Authority to maintain ample reserves to secure the stability of the exchanges. In fine, the monetisation of the sovereign, while not giving India a gold currency in effective circulation, is fraught with many dangers for the working of the Gold Bullion Standard, and must inevitably retard the building up of the Gold Reserves and the arrival of the day when India will be in a position, if she so desires, to decide for a Gold Currency in effective circulation.

18. It may be useful before this memorandum is closed to consider in rather greater detail two points which have been mentioned more or less casually hitherto, the cost involved in the introduction of a gold currency, and the necessity for allowing a fair interval of time for the building up of the gold reserves. The last point may be taken first. The objection that an attempt by India to convert her sterling securities into gold forthwith would damage the monetary interests of Great Britain or of the Western World in general is often misunderstood. India has not at present the resources required to make it certain that she could obtain the necessary quantities of gold which will be needed to make her gold reserves amply secure against all emergencies if she embarked on the policy of introducing a gold currency standard without delay, and would therefore have to make sure of being able to borrow in England or in the United States of America in case of necessity. It is therefore essential to the success of the attempt that she should retain sufficient goodwill in London and New York to make them willing to lend. The enquiries of the Currency Commission have made it clear that neither London nor New York are ready to promise unqualified assistance in this matter. But it does not follow that these monetary centres are sacrificing India to their own selfish interests. Their attitude is based on the belief that the extra demand upon the gold stocks of the world which India's action would entail would be such as to cause a tremendous dislocation and that, even if worse consequences did not ensue as many believe, threatening the stability of the gold value of every currency in the world, one result would inevitably be a very heavy fall in gold prices everywhere. India would not escape this fall, and the dislocation would be very severe, particularly for India's industrial enterprises. Whatever differences may have arisen over the question of the 1s. 6d. ratio, it is common ground that India does not want a renewed heavy fall in wholesale prices. India is therefore at least as much interested as London and New York in preventing a cataclysmic fall in gold prices. And it is well to remember that if London and New York are convinced that a particular course of action by India will have these results, even though their reasoning may conceivably be mistaken or exaggerated, the consequences they fear will probably follow simply because they fear them. It is not therefore a sufficient or complete answer for India to say that the view taken by London and New York is, in India's opinion, an erroneous or exaggerated one.

19. The extent to which India's adoption of a gold currency standard would cause an increased demand upon the world's gold stocks

must be a matter of opinion. Certain figures were put before the Currency Commission which gave reasons for holding that even those large estimates were below the mark, or at any rate, below the potential maximum. Those who look for a large return of unproductive gold from hoards in India are entitled to argue that the figures placed before the Currency Commission are an overestimate. It is however inevitable that the first effect of a decision by India to introduce a gold currency must be to cause a considerable extra demand for gold. Even the introduction of a gold bullion standard means—and has indeed already meant—the gradual conversion of a considerable portion of India's sterling securities into gold. It is pertinent to observe that the recent purchases of gold in London for the Gold Standard Reserve have had the effect of retarding the fall of interest rates in London and keeping Bank rate at 5 per cent. for a little longer than it would otherwise have been there, and that this has reacted on money conditions in India and made it necessary to keep rates up here also. The minimum gold reserves required before a gold currency standard could safely be embarked upon would clearly be very much larger than those required for a gold bullion standard. It has been remarked already that the process of drawing gold out of hoards in India must necessarily be a gradual one, so that the gold obtained from this source for supplementing the existing stock of gold in the world available for monetary purposes would do little in the first few years to diminish the strain. Further, if the newly available gold coins went into hoards to replace silver bullion, silver rupees, or notes, these, together with any gold coins which went into effective circulation, would all represent a new demand for gold, and at the same time an additional demand on the gold resources of the Currency Authority in India. Finally, time must obviously be allowed to the Currency Authority in India to find a solution for the problems which are raised by the recent large flow of silver rupees into the Currency Reserves accelerated as it would be by the issue of a gold coin. For all these reasons, it is clearly impossible for India to build up her gold reserves otherwise than cautiously and by gradual stages.

20. The question of the cost of a gold currency to India can best be approached if we begin from the cheapest of the theoretically possible alternatives, *vis.*, a sterling exchange standard. Under a sterling exchange standard it would be possible to dispense altogether with gold in the reserves, but there are some valid objections to this course, and it will be enough to assume that under such a standard India would have been content to hold and to continue to hold not more than the amount of gold, approximately 30 crores, which she held when the Currency Commission reported. At 4 per cent. the cost of holding 30 crores of gold may be taken to be 1.20 crores per annum. It may further be assumed that the pace at which silver rupees are being displaced from hoards would not be less than it is, had a sterling exchange standard been favoured and that the amount of currency notes in circulation would also be unaffected. It is true that the case for selling surplus rupees in order to obtain gold assets would have been less strong under the sterling exchange standard, but the loss involved in melting down silver rupees is to a

certain extent a paper loss, and the expense of carrying large stocks of silver rupees is comparable to the expense of holding gold bullion. In any case the difference in cost of the sterling exchange standard and the gold bullion standard in so far as holdings of silver rupees are concerned is not in point in the present connection. With a total circulation of 180 crores of notes and after allowing for 50 crores for the proposed rupee redemption liability, the minimum amount of gold required by the provisions of the Gold Standard and Reserve Bank Bill [Section 28 (2)] is 30 crores at the start, one-fifth of 230 crores or 46 crores after 5 years and one-fourth of 230 crores or 57½ crores at the end of 10 years. It is reasonable to allow for a growth of the circulation amounting to 20 crores in the first five years and 30 crores in the next five. The amount of gold required may then be taken as  $\frac{250}{5}$  50 crores after

$\frac{280}{4}$  70 crores after 10 years.

The growth of the gold reserve may further be assumed to be taking place at a fairly regular pace throughout the period, say, 4 crores a year. The extra cost of holding these amounts in gold instead of in securities at 4 per cent. is then:—

- 16 lakhs in the first year.
- 32 lakhs in the second year.
- 48 lakhs in the third year.
- 64 lakhs in the fourth year.
- 80 lakhs in the fifth year.
- 96 lakhs in the sixth year.
- 112 lakhs in the seventh year.
- 128 lakhs in the eighth year.
- 144 lakhs in the ninth year.
- 160 lakhs in the tenth year.

The additional cost thereafter would be 160 lakhs a year *plus* something extra representing the cost of keeping a minimum of 25 per cent. in gold against further expansions of circulation. The complications caused by the proposed transfer of the note issue to the Reserve Bank may be ignored. They do not affect the argument.

21. It is a matter of guess work to estimate the minimum gold reserves that would be required to be accumulated before it would be safe to inaugurate a gold currency standard with a full value gold coin in circulation. The figure may perhaps be put at a minimum of 125 crores. In order to secure this, the Currency Authority would have to borrow outside India and special steps would be necessary to dispose of silver

rupees. The cost in interest would therefore on the average probably be more than 4 per cent., but taking the same figure of 4 per cent. as before, the gross interest charge works out at 500 lakh, the extra charge for interest as compared with the sterling exchange standard being 380 lakhs and as compared with the gold bullion standard 220 lakhs. The charge for interest is however not the only extra cost involved by the gold currency standard. Account must be taken of the cost of issuing gold at a loss. It may be assumed that the minting charge will cover the cost of minting, but some further expenditure will be involved in withdrawing light weight coins from circulation. If 30 crores worth of gold a year be taken as the average amount of gold that would be imported by the Currency Authority for issue to the public, the loss involved is, as already stated, approximately 40 lakhs per annum. The annual charge for withdrawing uncurrent coin which might amount to a lakh, may be ignored. Experience in England shows that sovereigns lose on the average 0.026 grains a year in weight and half-sovereigns 0.040 grains. In India the loss would be greater. The extra cost of the gold currency standard, with a full value gold coin, may therefore be estimated at 4.20 crores a year as compared with the sterling exchange standard and 2.60 crores a year as compared with the gold bullion standard.

22. The cost of adopting the alternative of an overvalued gold mohur of 165½ grains would of course be less than that of a gold currency standard, but more than that of the gold bullion standard. The taxpayer would have to bear the loss of interest on the amount required to provide the gold for such gold coins as remained in circulation. These gold coins would displace an equivalent amount of notes or rupees, but it may be assumed that the deduction in the total liabilities of the Currency Reserve due to the reduction of the total circulation would be at the expense not of the gold holding of the reserve but of its holding of securities. The amount of such gold coins as would remain in circulation may be put at a guess at 25 crores. The extra annual cost to the taxpayer then of this alternative as compared with the gold bullion standard may be put at 1 crore for interest *plus* something under a lakh for the cost of withdrawing worn coin. This is 2.60 crores per annum more than the sterling exchange standard, and 1.60 crores per annum less than the gold currency standard.

B. P. BLACKETT.

May 1927.

## APPENDIX II.

## MEMORANDUM ON REMITTANCES.

1. The Reserve Bank shall effect such transfers as may be required between the account of the Government of India in India and the accounts in London of the Secretary of State and the High Commissioner.

2. Transfers to London shall be made on the demand of the Secretary of State in Council or the High Commissioner, who shall on Friday in each week notify the Bank of the amounts required to be placed to the credit of their respective accounts on each day of the succeeding week, and shall at the same time advise the Government of India by telegram of the amounts so demanded.

*Note.*—The Secretary of State in Council and the High Commissioner will regulate their remittance programme with a view to restricting their balance so supplied to an amount not materially in excess of current requirements on capital and revenue account.

3. The rupee amounts corresponding to the transfers referred to in 2 above shall be debited to the account of the Government of India in India on the day on which the sums are credited to the accounts of the Secretary of State or the High Commissioner and shall be calculated at the selling rate of the day for Telegraphic Transfers in Bombay. In the event of any fluctuation during the day, the rate shall be fixed by agreement between the Governor of the Bank and such officer of Government as the Government of India may appoint.

4. The following information shall be supplied to the Bank:—

- (a) Before the end of December in each year the Government of India shall furnish a preliminary estimate of the probable sterling requirements for the next financial year, showing the probable amount of the drawings in each month.
- (b) Before the end of March the Government of India shall furnish a revised estimate as above.
- (c) Seven days before the end of each month the Secretary of State and the High Commissioner shall send to the London Office of the Bank statements showing their probable drawings during each of the next three months, noting the days on which net disbursements are likely to be heavy and the probable amount of such disbursements.

The Bank shall be given the earliest possible intimation of any substantial change in the estimates furnished as above.

5. In regard to all matters connected with the remittance programme, the Government and the Bank shall maintain close and continuous contact, and due regard shall be paid by Government to any representations made by the Bank regarding the reaction of the programme on the exchange and money market.

## APPENDIX III.

## MEMORANDUM ON RELATIONS BETWEEN CO-OPERATIVE BANKING AND THE PROPOSED RESERVE BANK.

1. *Summary of Organisation.*—At the outset a brief statement of the organisation of the Co-operative movement in India, taken from the *Times of India* "Indian Year Book" 1927, may be given.

The basis of the movement is the primary credit society either of the agricultural or non-agricultural type which consists of a minimum number of persons and is registered and controlled under the regulations of the Co-operative Societies Act. The main business of the Credit Society is to raise funds by deposits from members and loans from non-members, Government and other co-operative societies, and to distribute the money thus obtained in loans to members or, with the special permission of the Registrar, to other co-operative credit societies.

*Agricultural Societies.*—As regards agricultural societies the commonest type is that prevailing in the Punjab, Burma and the United Provinces, i.e., a society of unlimited liability with a small fee for membership and a share capital, the share payments to be made in annual instalments. In some places compulsory deposits are required before full membership can be attained. The system in Bombay and parts of the Central Provinces is different, there being no share capital and only an admission fee.

Part of the working capital of agricultural societies is raised by deposits from members and local friends of the movement, but the bulk of the capital is obtained by loans from central and other co-operative societies. According to the latest available figures out of the total working capital  $2\frac{1}{3}$  crores were shares,  $2\frac{4}{5}$  crores reserves, 12 crores deposits of members,  $1\frac{1}{2}$  crores deposits from non-members and 15 crores were loans from central societies.

2. *Non-agricultural Societies.*—The non-agricultural societies have grown up in cities and towns for the improvement of the economic position of artisans, small traders, members of particular castes, employees of large firms and Government departments. These societies are usually of limited liability with substantial share capital, payments being made in monthly instalments, while the rest of the working capital is obtained from local deposits from members and others. Loans from co-operative banks and societies form only a small portion of the capital. On 31st March 1925 it is stated that out of a total working capital of over 7 crores, only 72 lakhs were held from central banks. To this class belong a few societies organised as Peoples' Banks mainly in Bombay and Burma. The larger banks open current accounts, grant cash credits and overdrafts and discount local bills of exchange. Some of the larger non-agricultural societies after meeting the needs of their members have large balances which they advance to the smaller societies, but this practice is being discouraged and the surpluses of primary societies are generally concentrated in the central banks.

3. *Financing of Societies.*—At an early stage the necessity for central organisations to control and co-ordinate the financing of societies was

realised and central co-operative banks have been created controlling the societies generally in areas corresponding to revenue districts but also operating in smaller areas where the movement is intensive in character. The constitution of the central banks is not uniform but they are generally of two main types, (1) banks of which the membership is confined to societies, and (2) banks which include societies and individuals as their members and secure to societies separate representation on the Board of Directors. Further, in all Provinces, except the United Provinces, and also in the States of Mysore and Hyderabad there are Apex or Provincial Banks generally with the Central Banks as shareholders or affiliated to the Provincial Banks, but there is no uniformity in the constitution of the shareholders and directorate of the various banks. The Provincial Banks are the mainstay of co-operative finance and the main advisory and supervising authorities in financial operations. Their business is mainly the attraction of deposits other than those available to central banks, the rediscount of co-operative paper and the regulation of funds between central banks. They thus co-ordinate the financing of the central banks which in turn finance the primary societies. According to the returns for 1924-25 the following was the position of the movement in that year:—

Central Societies (including Provincial and Central Banks and Banking Unions)	555
Supervising and Guaranteeing Unions	1,340
Agricultural Societies	64,281
Non-agricultural Societies	5,432

Of the central and provincial banks, 10 had a capital and reserves of 5 lakhs and over, while 104 had capital and reserves between one lakh and 5 lakhs.

4. The External Capital Committee drew attention to the very important part played by co-operative societies in the provision of credit facilities throughout India, a part which is certain to become more influential in the future. In this connection a passage may be quoted from the evidence given to the Committee by the Bihar and Orissa Provincial Co-operative Bank:—

"If the progress of co-operative credit is to be more rapid, and if the financial requirements are to be adequately met, stronger central financing institutions will be required than those that exist at present in some of the Provinces as Apex Banks. In the matter of financial resources, all Provinces are not equally fortunate and while in a large number of the Provinces it is found that there is no outlet for the accumulated funds, in others it is equally evident that the progress of the credit movement will be retarded for lack of funds at the Apex, unless direct Government aid is granted. The latter method is admittedly not desirable, and the Joint Stock Banks or the Imperial Bank cannot provide the necessary long term capital required. Such banks, however, have always willingly lent their support to co-operative banks on their own terms especially regarding the period. This difficulty was foreseen by the Committee on Co-operation in India in the year 1914 and now,

due to the substantial progress made by the movement, it is necessary to review the financial structure of co-operative credit and to examine the necessity of either an Imperial Board of co-operation to co-ordinate the working of the movement and to facilitate the supply of funds from *plus* Provincial Banks to *minus* Provincial Banks or the organization of a strong central institution for the finance of the whole movement in India by the amalgamation of the existing Provincial Banks."

Mr. M. L. Darling, I.C.S., in his work on Co-operation in Germany, Italy and Ireland, has also suggested as a solution of the difficulties of centralising finance for the movement in India, the establishment of a *Co-operative Apex Bank* for the whole of India, linked under Government control to the Imperial Bank.

5. It may be relevant at this stage to indicate briefly how co-operative banking is related to the Central Banks (corresponding to the Reserve Bank) in other countries. Broadly speaking, the national co-operative unit is most frequently an Apex Bank which is part of the movement and is frequently aided by the State or given some form of guarantee, e.g., of its debentures. In Italy the National Institute of credit performs this function while the great Banks of Naples and Sicily assist co-operative banking in return for special privileges from the State. In France, according to Wolff on "Co-operative Banking" it was realised that the Bank of France could not provide credit directly for agriculture, because agriculture could not take up three months' paper but required advances for terms much longer than fitted in with the business usages of a central bank like the Bank of France. Therefore, under its charter of 1899, it had to hand over every year a portion of its net profits to the Minister of Agriculture to be employed at his discretion in support of agricultural credit generally by making advances on easy terms to the local central societies. The system is said not to work well. Probably the best instance for present purposes is the case of the National Bank of Egypt which was founded in 1898 to take over the note issue and the Government balances and was intended to make advances to agricultural institutions. Subsequently it was realised that the latter operations were not part of the functions of a great Central Bank of the State and a separate Agricultural Bank was organised to undertake this business. General experience therefore appears to show that the Apex Bank of a co-operative system ought to be a separate bank which is part of the co-operative movement and exists solely for co-operative finance.

6. *Relations of the Imperial Bank to Co-operative Banking.*—The Imperial Bank now grants facilities on a considerable scale to co-operative banks on the security of promissory notes of primary societies and is always ready to consider any definite proposals for extension of these facilities which may be advanced by the Registrars. In granting these facilities, the Bank has to keep before it the advisability of discouraging the use of its credit to replace deposits the accumulation of which is one of the main objects of co-operative credit banking. The general lines on which the Bank works are:—

- (1) All promissory notes of co-operative credit societies or central co-operative

banks require to be scrutinised and approved by the Registrar before being handed to the Bank as securities.

- (2) The banks to which advances are made are required to give an undertaking that all promissory notes held by the Imperial Bank as security are covered by actual advances made to societies or central banks.
- (3) A margin of 20 per cent. calculated on the actual advances given on the promissory notes by the provincial banks to the co-operative societies or central banks has to be maintained.
- (4) Before granting advances, the balance-sheets of the central banks concerned have to be submitted for scrutiny.
- (5) Advances are purely seasonal in their nature for crop purposes only and for a period not exceeding 6 months.

In addition societies have the concession of Remittance Transfer at par without commission up to certain limits.

The following statement shows the credits from the Bank outstanding in June 1927 in lakhs of rupees:—

#### IMPERIAL BANK OF INDIA.

##### ADVANCES TO CO-OPERATIVE BANKS. June 1927.

Province.	Limit of Credit		Total.
	against Government and other Authorised Securities, etc.	against the borrowers D. P. Notes and D. P. Notes of Rural Credit Societies.	
	Rs.	Rs.	Rs.
Bengal . . . . .	37,78,900	4,06,000	41,84,900
Bombay . . . . .	83,000	8,00,000	8,83,000
Bihar and Orissa . . . . .	..	8,00,000	8,00,000
Burma . . . . .	34,20,500	1,00,000	35,20,500
Central Provinces . . . . .	9,05,800	4,00,000	13,05,800
Delhi . . . . .	2,07,000	..	2,07,000
Kashmir . . . . .	..	..	..
Madras . . . . .	11,50,000	54,81,000	66,31,000
Punjab . . . . .	38,96,000	21,15,000	60,11,000
United Provinces . . . . .	..	..	—
Total . . . . .	1,84,36,200	1,02,62,000	2,86,98,200

7. *Co-operative Banking and the Reserve Bank Bill.*—The opinions received on the Bill from Co-operative institutions indicate a strong desire that the more important co-operative banks should be included in the Schedule as members of the Reserve system, but this desire is generally accompanied by a stipulation that such banks should be freed from the necessity of keeping balances with the Reserve Bank under clause 41 of the Bill, i.e., they desire to have the privileges of Scheduled Banks without the responsibilities. This question of including co-operative banks in the Schedule was considered when the Bill was first drafted, but it was felt that co-operative banks from the nature of their business and their comparatively small resources would not be able to keep funds locked up with the Reserve Bank.



8. The Finance Department have since consulted certain expert officers with wide experience of the co-operative movement.

The first question which arises is that of representation of the co-operative movement on the Board of Directors of the Reserve Bank. This is desirable for two reasons, firstly, because of the importance of the co-operative movement in stimulating habits of thrift, and because it is by the development of co-operative banking that banking needs will be satisfied in places remote from the main centres of trade and industry and, secondly, because the co-operative movement is allied to the development of India's most important industry, agriculture.

It has been suggested that the provincial co-operative banks should be organised to provide the necessary representation of co-operation and agriculture on the Board of the Reserve Bank, but this proposal is strongly opposed to expert opinion which holds that these Banks tend to represent the urban side of the movement and their Directors are not always closely conversant with the interests of the agricultural classes. Urban interests will already be represented fully on the Board by other means, and it is undesirable to add to this representation through the medium of co-operative banks. In the alternative it has been suggested that the representation of co-operation might be secured through an organisation of the provincial co-operative unions or institutes which are central organising bodies more representative of the movement than the Banks. There is, however, no uniformity in their constitution and activities in the various provinces, and there is no influential central organisation in the largest agricultural province in India, *e.g.*, the United Provinces. The constitution and purposes of these central organisations vary from Province to Province. In Bombay, there is a central co-operative institute with a representative constitution. In the Punjab, there is a provincial union with 125 central institutions affiliated to it. In Madras, there is also a union for propaganda whose chief activity is the publication of a bulletin. In Bengal, there is an organisation society for propaganda. In Burma, there is a Council designed to be of representative character, but, owing to lack of funds, it is said not to be functioning properly. In Bihar and Orissa, there is a Co-operative Federation to which societies are affiliated. It employs auditors to audit the accounts of the societies and does propaganda work. In the Central Provinces, there are separate organisations in different areas and the central Co-operative Federation is said to be moribund. In Assam, there is an organisation for the Surma Valley area and an Advisory Board for Development. In the United Provinces, there is only a Standing Committee of Co-operators.

In view of the diversity of their constitution and purposes it is manifest that these bodies could not be suitably organised to provide satisfactory representation for the movement, and the only satisfactory solution left for representation of co-operation and agriculture appears to lie in the nomination by the Governor General in Council, with the advice of Provincial Governments, of individuals who have played an outstanding part in the development of co-operation and agriculture in India. It is con-

sidered that at least two persons should be so nominated to represent these activities.

9. As regards the proposed business of the Reserve Bank, Co-operative Banks are interested in—

- (a) Clause 14-2, (b), *i.e.*, purchase, sale and rediscount of Bills of Exchange and promissory notes drawn and issued for the purpose of financing seasonal agricultural operations or the marketing of crops.
- (b) Clause 14-4 (a), the making of loans and advances against the security of stocks, funds and securities.
- (c) Clause 14-4 (c), Advances against promissory notes of banks supported by documents giving title to goods.

It has already been shown that the Imperial Bank grants extensive facilities to Co-operative Banking institutions and is prepared to take any reasonable steps to extend these facilities. There is no reason to believe that the Bank will not continue to work on the same lines under the new conditions when the Reserve Bank comes into force, as during the course of the last few years the business has developed considerably and is now a source of profit to the Imperial Bank. If so, there will be no necessity for the Reserve Bank to deal directly with Co-operative Banks. There is, however, some evidence of apprehension that when the Imperial Bank attains a larger measure of independence, its terms may become less reasonable than at present, or it may desire to discard this form of business. It is stated that other banks can seldom assist with terms which are profitable to co-operative institutions. It would be possible to provide in the terms to be given to the Imperial Bank that it would continue to finance Co-operative Banks as at present, but there is much force in the suggestion that the Reserve Bank should be given power to deal with Co-operative Central Banks if the Imperial Bank does not continue to offer reasonable terms. The Reserve Bank should be able to advance direct to the provincial co-operative banks against Government securities and should rediscount bills bearing their signatures. A provision of this kind would put the Co-operative Banks in a stronger position than at present as it might enable them to get better terms from the Imperial Bank.

10. If this view is accepted it would be necessary to provide—

- (a) for a definition of "Co-operative Central Banks" and "provincial co-operative banks" and
- (b) for inclusion in 14-2 (b) of provincial co-operative banks as a class of banks whose signatures on a bill will be accepted for rediscount, etc.

Expert opinion holds that, if provision is thus made, the facilities offered by the Bill will be sufficient. No useful purpose would be served by extending clause 14 (4) (c) to Co-operative Banks and thus allowing advances to be made against promissory notes. In the first place, advances would be limited to 90 days while the vast bulk of loans required by Agricultural Co-operative Societies are wanted at seed time and cannot be repaid till after the harvest, *i.e.*, a

## APPENDIX IV.

MEMORANDUM ON THE EFFECT ON THE BUDGET OF  
CLAUSE 40 OF THE BILL.

The following statement showing the effect of clause 40 of the Bill on the Budget of the Government of India has been prepared on the lines of a similar statement which was prepared at the instance of the Members of the Royal Commission.

2. The net profits of the Paper Currency Department and the Gold Standard Reserve on the basis of the 1927-28 Budget are—

	(In Lakhs of Rs.)
Paper Currency Reserve . . . . .	2,29
Gold Standard Reserve . . . . .	2,17
	<u>4,46</u>
Less charges of Currency Department . . . . .	52
	<u>3,94</u>

3. For purposes of the estimate of the effect of the building up of the Reserve Fund at the rate which has been provided for in clause 40 of the Bill, we may take the net annual profits of the Bank as follows:—

	(In Lakhs of Rs.)
Net profits at present . . . . .	3,94
Add investment of reserve balances, etc. . . . .	70
Deduct payments to Imperial Bank . . . . .	18
Extra establishment of Reserve Bank . . . . .	10
	<u>4,36</u>

4. The following statement gives the distribution of the above profit between Government and the Bank:—

	(In Lakhs of Rs.)	
	Government.	Bank.
I year . . . . .	2,18	2,18
II year . . . . .	3,67	69
III year . . . . .	3,86	50
IV year . . . . .	3,86	50
V year . . . . .	3,86	50
VI year . . . . .	3,86	50
VII year . . . . .	4,23	13
		<u>5,00</u>

5. The loss to the Revenue Budget works out as follows:—

	(In Lakhs of Rs.)
	(—means gain).
I year . . . . .	1,76
II year . . . . .	27
III year . . . . .	8
IV year . . . . .	8
V year . . . . .	8
VI year . . . . .	8
VII year . . . . .	—29

6. The amount earmarked out of the surplus of 1926-27 for meeting the temporary deficit due to the utilisation of the profits for strengthening the Reserve Fund as recommended by the Commission is about 1 crore. The anticipated deficit in the next few years is not likely to involve additional taxation or embarrass the extinction of Provincial Contributions.

## MINUTES OF DISSENT.

Recognising that the Gold Standard and Reserve Bank Bill as redrafted by the Joint Committee reflects a substantial measure of agreement on a large number of important points, more than one of which is at any rate potentially controversial, we, the undersigned members of the Committee, are anxious to say nothing to stir up controversy. Our hope is that eventually a sufficient degree of unanimity may be secured after further discussion of the Bill in the Assembly and the Council of State to make the Bill as finally passed and the new gold standard and the new Reserve Bank when they come into operation generally acceptable to India. We refrain therefore in this minute from pursuing our objections to some provisions in the Bill in its present form with which we are not in entire agreement and confine our observations to those matters to which we attach special importance.

*Clause 4.*—Our reasons for preferring the original plan of privately subscribed share capital are bound up with the question of the constitution of the directorate of the Bank and are given below in our observations on clause 8. We only observe at this point that, if the whole of the capital of the Bank is subscribed by the Government, it becomes very difficult to ensure that complete independence for the Bank which is essential to its proper working.

*Clause 7.*—The Royal Commission on Currency recommended that members of the Central and local Legislatures should be ineligible for the office of Director of the Bank, and provision to that effect was made in clause 8 of the original Bill. We recognise the force of the objection that in present circumstances the number of suitable persons likely to be available in India for service on the directorate is none too great, and that the exclusion of members of Legislatures tends to narrow an already limited field of selection. But we attach fundamental importance to the principle which is not disputed by the majority of the Joint Committee that the directorate of the Bank should be entirely free to carry out its important functions of control of Currency and Credit policy solely on lines of prudent finance. For this purpose it must not merely be expressly released from control by the Government and the Legislature, but must be free both from the risk of political pressure and from the appearance of being subject to such risk. The presence on the Board of members of the Legislatures appears to us incompatible with this fundamental principle. Moreover, in our opinion, it will be difficult for the same individual to give adequate attention to his duties as director of the Bank if he is at the same time actively engaged in his duties as member of a Legislature. We believe that, even at the present time and still more as the circle of those who are versed in public affairs and finance in India widens, there will be no great difficulty in finding the right men to serve as directors outside the ranks of members of the Legislatures.

*Clause 8.*—Our objection to members of the Legislatures being eligible for the office of Director applies with even greater strength to the proposal that the Indian Legislature and the

Provincial Legislatures should be formed into constituencies for the election of members of the directorate. Such a proposal seems to us to be fatal to the scheme of a Reserve Bank altogether. Under this proposal eight out of fifteen voting members of the Board will be chosen by the Central Executive or the Central Legislature, while three more will be chosen by the Provincial Legislatures, making eleven out of fifteen voting members (in addition to the non-voting Government officer) who will owe their presence on the Board to State intervention. We regard it as fundamental that the majority of the members of the Board must be chosen by constituencies independent of the State. Only so can the full independence of the Board be secured. The proposal further offends against the principle that the constitutional functions of the Legislature do not and ought not to extend to the exercise of executive functions, such as the appointment of persons to specific posts. In so far as such a function has to be exercised at all in the case of the Reserve Bank by or on behalf of the State, it is a function of the Executive and not of the Legislature. We object also to the proposed invidious distinction between elected and other members of the Legislatures.

Our colleagues who voted against the proposal to constitute the Bank with private share capital agreed with us that the directorate must not in any case be subject to the direct control of the Government or of the Legislature. In the absence of a body of shareholders to whom the directorate can be answerable and for whose privately subscribed capital it is responsible, the anomaly arises that the Board once constituted is theoretically responsible to no one either for the capital subscribed by the Government or for the large funds which come under its control from the Government and the public. We were willing to consider the possibility of tolerating this anomaly if we could be convinced that a suitable electorate could be framed for the selection of a majority of the directors (it being essential that the majority should not owe their place to Government nomination) without recourse to the device of private shareholders, and that a suitable directorate could be thus created independent of Government and the Legislature and likely to work well in practice. All efforts to secure these results have failed, and our experience has convinced us that the device of private share capital which is well understood and has worked well in other countries which have had to solve the problem of establishing an independent Central Bank, is the method best calculated to serve India in this connection. We recommend therefore that the Bill be altered back to something nearer its original form so as to provide for private share capital and for the election of at least a considerable proportion of the directors by the shareholders. It would be possible to adapt to a shareholders bank some of the ideas included in the Bill in its present form, e.g., the election of one director each by the Provincial Co-operative Banks, the Federation of Indian Chambers of Commerce and the Associated Chambers of Commerce, respectively. To meet the point urged against the original

proposal, namely, that the whole of the original Board would be nominated by the Government, we should be prepared to entrust to similar electorates the duty of electing in the first instance those of the directors who will thereafter be subject to election by shareholders. We believe that by such means and by providing that at the time of the original subscription of share capital preference in allotment shall be given to (a) small subscribers, and (b) to persons of Indian domicile, all the objections felt by our colleagues to the proposal to found the Bank with share capital can be overcome in so far as they are valid and that a more satisfactory directorate can be secured by this procedure than by any other.

The provision that either the Governor or the Deputy Governor must always be an Indian appears to us to be objectionable, both as intruding racial and communal questions in a sphere where they ought not to belong and as subordinating the essential requisite of maximum efficiency to other considerations. Similarly, in the case of the directors nominated by the Government, we object to the inclusion in the Bill of a provision that they must be Indians, though we should be ready to agree that the directors nominated by the Government should always be selected with a view to making the Board as widely representative as possible of the various localities, communities and interests of India as a whole.

*Clause 25 (2).*—We are of opinion that the provision requiring that after the end of 10 years the amount of gold securities in the Reserve must never exceed one-half of the total gold assets may prove unduly hampering to the Executive of the Bank in the management of the Reserve. The provision that the Gold Bullion must never be less than one-quarter of the Reserve seems to us to impose a sufficient obligation in this respect, and we think that subject to this obligation the Board should be trusted to use its discretion in the interests of India in regard to further accumulations of gold and investments in gold securities.

*Clause 48.*—For the reasons given in paragraph 66 of the Report of the Currency Commission, we are opposed to the proposal to make the sovereign and half-sovereign which were demonetised by the Currency Act of 1927 once again legal tender. The objections to this proposal are further explained in the memorandum by the Hon'ble the Finance Member which is annexed to the Joint Committee's Report. The same memorandum explains our objections to the proposal to coin a gold mohur and to express the notes of the Reserve Bank in terms of mohurs as well as of rupees (clause 18 of the Bill as now drafted). We are aware that the majority of the Joint Committee realise that it will not be practicable for gold mohurs to be put into effective circulation for at any rate many years to come. We feel, however, that in these circumstances the inclusion of any reference to a gold mohur in this Bill is at best premature and unnecessary and may arouse false expectations among the general public and lead to continued pressure upon the Government to coin mohurs and endeavour to put them into circulation in a way that could only result, were the Government to yield to such pressure, in

making it impossible to maintain stability of exchange in relation to gold altogether.

BASIL P. BLACKETT.

A. C. McWATTERS.

HUGH G. COCKE.

V. K. ARAVAMUDHA AYANGAR.

A. F. L. BRAYNE.

CHARANJIT SINGH.

UMAR HAYAT.

I agree with and have signed the minute of dissent of the Hon'ble the Finance Member except that I would prefer that more definite representation on the Board for Muslims and Zamindars, in proportion to their stake in the country, should be provided in the Bill.

UMAR HAYAT,  
Tiwana.

*The 15th August, 1927.*

I have signed the Report of the Joint Committee appointed to consider the Gold Standard and Reserve Bank of India Bill, 1927, subject to the following Minute:—

While the establishment of a Reserve Bank in India may be regarded as an ideal to be achieved in the future, I am not convinced that the present is an appropriate time.

In the first place, the Government of India have just carried through an important change in the currency system of the country, by stabilising the rupee at 1/6d. sterling. I consider that, for some time to come, Government, and no other authority, should be responsible for maintaining the ratio which has been adopted.

In the second place, the custom of financing the trade of the country by means of operations on cash credits rather than by bank bills has become firmly established, and it would be difficult to bring about a change, even if this were desirable, which I do not think it would be. This would considerably restrict the scope for remunerative employment of the funds of a Reserve Bank. In this connection it is to be noted that the results achieved by the Reserve Banks in South Africa and Australia have been disappointing.

It is true that the immediate establishment of a Reserve Bank has been recommended by the Currency Commission, and, if this recommendation be accepted, I think that it would be better to give effect to it by transferring the Currency Department of Government to the Imperial Bank, and allowing that institution, at least for a period of years, to carry out the functions of a Reserve Bank.

In the Majority Report of the Currency Commission this method is not supported, but the chapter in which expression is given to the opinion of the Commission on the subject is, to my mind, one of the most unconvincing chapters of the Report.

The Imperial Bank have ready at hand the whole machinery for performing the functions of a Reserve Bank, if there were transferred to an Issue Department to the Bank the Currency Department of the Government of India.

Another advantage of permitting the Imperial Bank to carry out the functions of the Reserve Bank is that it would obviate the necessity for compensating the Imperial Bank at the expense of the other banks in the country. I do not suggest that it is not right that the Imperial Bank should be compensated, notwithstanding the fact that, after 1931, no legal obligation in this direction will exist, but the method by which Government propose to meet this obligation, while it may not result, as has been suggested in indigenous banks being extinguished altogether, will certainly mean that they will be exposed to competition by a State-aided Bank, which will adversely affect their prosperity and standing to an extent to which some of them at least are likely to succumb.

If, however, Government have decided to establish a separate Reserve Bank, the choice would seem to lie between a shareholders' bank and a purely State Bank without share capital. Of these two, I am strongly in favour of a shareholders' bank, as I fear that the policy of a State Bank would tend to become a political one. In the case of a shareholders' bank the Directors would be elected by the shareholders, not on account of their political views, but chiefly on account of their business experience. This is of the greatest importance in the case of a bank with which the other banks throughout the country will be compelled by law to make deposits of their funds amounting to many crores of rupees. Anything in the nature of political control of, or interference with, a Reserve Bank would be disastrous.

As the majority of the Committee have decided in favour of the establishment of a State Bank without capital, I will now, although I disapprove of the whole scheme, mention certain points in the proposed Bill which appear to me to be open to objection.

In clause 5 it is provided that the Head Office of the Bank shall be established in Bombay, and that it shall have Branches in Calcutta, Madras, Rangoon and London. I consider that, in view of its geographical position, and its commercial importance, having regard both to the present and the future, it would be desirable to establish the Headquarters of the Bank in Calcutta. Failing this I am of opinion that the Headquarters of the Bank should be in Bombay from March to August, and in Calcutta from September to February, these periods being the seasons during which money is in strong demand for financing the trade of the country on the Bombay side and Calcutta side, respectively.

In clause 8 it is provided that of the Governor and Deputy Governor, one must be an Indian. I do not object to either of these officers being an Indian, but I think it is most undesirable that any racial distinction should be introduced in this Bill. The test should be, not whether a candidate for the position referred to is an Indian or a European, but whether he is the person, whatever his nationality may be, best qualified to carry out efficiently the duties of the appointment.

I am opposed to the scheme adopted by a majority of the Committee and embodied in clause 8, for the appointment of Directors of the Bank, other than the Governor and Deputy Governor. In particular I am not in agreement with the suggestion that three Directors should be elected by the Indian Legislature and three by the Local Legislatures. While I think that it would be a mistake to lay down that a person who is a member of the Indian, or of a Local, Legislature should, for that reason only be precluded from appointment to the Directorate, as was provided in the original draft of the Bill, I disapprove entirely of the election of Directors either by the Central Legislature or by the Local Legislatures. Whatever may be said to the contrary, there can be little doubt that Directors so elected would be chosen primarily for political considerations, and, if the Board were constituted, or partly constituted, in this manner, it would not command the confidence of the public, and the standing of the Bank, both in India and in other countries, would be adversely affected.

In clause 11 the Reserve Bank is empowered to deal in Bills of Exchange drawn in or on any place in Gold Standard countries specified on this behalf by the Governor General in Council, having a currency of ninety days exclusive of days of grace. I should have no objection to offer to the Reserve Bank being authorised to deal in Telegraphic Transfer or Bills of Exchange payable on demand, but the purchase of Bills of Exchange having a currency of ninety days involves a commercial risk which I do not consider that the Reserve Bank ought to be authorised to undertake.

In clause 18 it is provided that the value of bank notes shall be expressed in mohurs and fractions of mohurs. In clause 48 it is provided that a gold coin to be called a mohur shall be coined at the Mint in such quantity as the Governor General in Council may direct. I understand that certain members of the Committee, who supported the inclusion of this clause, only intended that, for sentimental reasons, a few gold coins should be minted. I think that it is undesirable at the present stage for Government to undertake the minting of a gold coin at all, as if political pressure were successfully exercised in favour of the free minting and circulation of gold coins, the cost of the present reform of the Currency would be greatly increased, if indeed it were not rendered impracticable.

Clause 36 provides that every scheduled bank shall maintain a minimum balance with the Reserve Bank, the amount of which shall at no time be less than  $7\frac{1}{2}$  per cent. of the daily average of the demand, and  $2\frac{1}{2}$  per cent. of the daily average of the time liabilities of such Banks. I do not know whether it has been realised that this provision will mean, as I have already stated, that scheduled banks will have to deposit with the Reserve Bank funds amounting to many crores of rupees on which they will receive no interest, and which deposits will be in addition to the ordinary balances which the banks will always have to maintain at their different branches. One indigenous Bank will require under this section to deposit Rs. 80 lakhs, and another Rs. 40 lakhs, with the Reserve Bank. On these large amounts these banks will require to pay interest to their depositors, but will

receive no return. I consider that the percentages are too high, and that, in any case, it should be permissible for the scheduled banks to lodge a proportion of the balances, which they are required to maintain with the Reserve Bank, in the form of Government securities on which they would receive interest. The question of what this proportion should be is one for discussion, but I do not think that 50 per cent. would be an unreasonable amount.

What is written above represents my personal views only. These views have not been expressed by me as representing the Bengal Chamber of Commerce, who have submitted their opinions with regard to the Bill in a special memorandum to Government.

J. W. A. BELL.

As shaped in the Joint Committee this Bill is on the whole a progressive measure based on sound principles. It can be improved and made more perfect still by altering it in two or three important directions, and I shall now proceed to state them briefly one by one.

First, the adoption in clause 25 (2) of the system of proportional reserve to the note issue in preference to the fixed fiduciary system is a serious and deliberate departure from the practice of the Bank of England which experience has proved to be sound. It is claimed for the proportional reserve system that it makes for greater elasticity of the paper currency. I am not sure that this so-called elasticity—which is but another name for violent fluctuations in the volume of the currency in circulation—is an unmixed blessing. It will place an unnecessary and even mischievous power in the hands of the Bank to create drastic deflation and inflation—a state of things which, I trust, the Assembly has no intention to bring into existence. The chief merit of a reserve should be the safety and stability of the note issue and the experts who have repeatedly examined the system prevailing in England have after each fresh examination pronounced themselves in favour of the fixed fiduciary system as the safest. Moreover, in the Bill, even the proportional reserve system is not followed in its entirety. In the United States and South Africa where the proportional reserve system prevails, the Bank has, in addition to the 40 per cent. gold backing against the note issue, a further gold reserve of 35 per cent. and 40 per cent., respectively, against its banking liabilities. If we must have the proportional reserve system, let us have it in an honest form at least.

Secondly, the power given to the Bank under clause 25 (6) of the Bill to invest the assets of its Issue Department in the balances and securities of what are called "gold standard countries" is full of risk. Countries which may be on gold standard to-day might cease to be so to-morrow in case of War, political crisis or similar other emergency. The assets of the Issue Department of the Bank, if invested in these countries, will thus always remain exposed to the danger of serious depreciation and even total disappearance. I would, therefore, earnestly appeal to the Assembly not to imperil the reserve behind our note issue in this hazardous manner. The only exceptions that may be made are England and the United States of America as

the probabilities of their maintaining a free gold market are always greater.

Thirdly, the agreement with the Imperial Bank, Schedule second to the Bill, is unduly generous in favour of that body. The Indian tax payer is being handed over gagged and bound hand and foot for twenty years to the tender mercies of a private shareholders' concern and, in my humble opinion, it is our sacred duty to prevent such unnecessary sacrifice to the Indian Exchequer.

JAMNADAS M. MEHTA.

The 4th August, 1927.

I differ from the majority view about the provisions in this Bill as re-drafted by the Joint Committee on the following points:—

(1) I think the words "A Gold Standard Currency" should be used in the title and in the preamble of the Bill as in the original draft. Even those words do not go as far as I would like, for I hold that free Gold Currency should be progressively introduced in India, and a beginning be made with it immediately. But I shall be content with the words "Gold Standard Currency", because they at any rate express the idea that Gold Currency is a thing to be counted with and introduced sooner or later.

(2) I cannot support sub-clause '(d)' of clause 7, because, in my opinion, the words are so wide that they may, besides being ineffective for the purpose contemplated, also prove mischievous by way of giving scope for litigation, on the ground that a certain person does or does not conform to the description in the clause as a candidate for election or nomination as a Director of the Bank. The explanation under '(d)' does not sufficiently cover this ground of objection.

(3) With regard to clause 81 and clause 48 of the revised draft taken together, I would impose upon the Bank an obligation to issue Gold Mohurs, in any quantity required, in exchange for gold bullion tendered to the Bank, at the rate of 169.5024 grains of fine gold per Mohur. And I would impose a corresponding obligation on the Governor General in Council, by a suitable revision of the Indian Coinage Act, to mint and supply to the Bank for issue Gold Mohurs in such quantities as may be required by the Bank. I remain unconvinced by the arguments on this point advanced by the Finance Member in his Memorandum on this subject.

(4) With regard to clause 32, I am not satisfied that, in respect of sale of gold bullion in India, the price fixed is reasonable, namely, twice the normal cost per tola of transferring gold bullion in bulk from Bombay to Gold Standard countries in addition to Rs. 21-3-10.

(5) With regard to clause 38, I am against the rate fixed therein, in respect of the balances which the scheduled banks have got to maintain with the Reserve Bank. This provision imposes an unnecessarily large handicap upon the indigenous banks.

(6) With regard to clause 39, I am against the provision of the Bank entering into an agreement with the Imperial Bank of India for a fixed period of 25 years. I think it is possible to get the

agency work of the Bank to be performed by some of the indigenous banks at least to a certain extent, with benefit both to them and the Reserve Bank.

N. C. KELKAR.

POONA;

*The 3rd August, 1927.*

The undersigned differs from his colleagues in regard to the constitution of the proposed Reserve Bank of India, and the composition of its Directorate. To begin with, serious consideration of the implications of the proposal of a State Bank has shown us the advantages of the original proposal of having the Reserve Bank in India established on the basis of a shareholders' bank. The amendments carried on 21st July last by members of the Committee favouring Indianisation, without regard to the efficient working of the Bank, tend to make the Reserve Bank a tool in the hands of politicians. An important amendment, for instance, laying it down that either the Governor or Deputy Governor of the Reserve Bank [clause 8, sub-clause (1)] should be an Indian, was carried by the narrow majority of one, showing that a large number of the members of the Committee were in favour of giving efficiency its due.

In other amendments also where the question of control of the Bank was involved, the undersigned regrets to find that the racial element was introduced again, regardless of the principle of efficiency which, in an institution like the proposed Reserve Bank, should be the only factor guiding decisions relating to the appointment of the Managing Governor, the Deputy Governor and the other Directors. The undersigned maintains that, in the interest of the country, it is essential that no question of race, colour or creed should be allowed to have sway in the appointment of the Managing Governor, the Deputy Governor or any of the other Directors. The undersigned also differs from his colleagues on the question of electing Members of the Indian Legislature as Directors of the Bank, as the amendment which was passed by the Committee suggests. In the opinion of the undersigned, this is a dangerous intrusion of politics into an institution the sole guiding principle in whose administration should be efficiency first and last.

In the circumstances, the undersigned holds the view that no political considerations should be allowed to interfere with the working of the Bank, also that the interests of efficiency can best be served by engaging the best men available as Managing Governor or Deputy Governor, and that as at the present stage of banking in India very few Indians unfortunately have the necessary qualifications, there is, therefore, no alternative but to employ Europeans.

M. SUHRAWARDY.

*The 4th August, 1927.*

There are some minor points on which we do not agree with the findings of the majority of our

colleagues; but we do not think it necessary to append a dissenting minute on all these points. We have signed the report subject to our right of moving amendments in the House on the points on which we have disagreed.

M. RAMADAS PANTULU.

A. RANGASWAMI IYENGAR.

B. K. SHANMUKHAM CHETTY.

I do not agree with the majority view of the Committee on the following points:—

(1) With regard to clause 25 (2). It is a serious and deliberate departure from the practice of the Bank of England to adopt the system of proportional reserve to the note issue in preference to the fixed fiduciary system when the experience has proved the soundness of the latter. It is claimed that the proportional reserve system will ensure greater elasticity of the paper currency. The so claimed elasticity, in its bare form, means the violent fluctuations in the volume of the currency in circulation, and I must add that if it is anything, it is a mixed blessing. This elasticity will be not only an unnecessary but even a mischievous power in the hands of the Bank to create, at its sweet will, drastic inflation and deflation. I trust, the Indian legislature least means to advocate or to bring into existence. The chief merit of reserve should be the safety and stability of the note issue. On repeated examinations of the system prevailing in England, the experts have, after every fresh examination, pronounced fixed fiduciary system as the safest. Even the proportional reserve system in the Bill is not in its entire form. In the United States and South Africa where the proportional reserve system prevails, the Bank has in addition to the 40% gold backing against the note issue, a further gold reserve of 85% and 40%, respectively, against its banking liabilities. If preference must be given to proportional reserve system, let us at least adopt it in its entirety, i.e., its honest form.

(2) I do not agree with clause 25 (4). In place of "8.4751", the figures "7.5334" be substituted.

(3) With regard to clause 25 (5). I not only do not agree with this, but strongly oppose the keeping of 15% of gold reserve outside of India on the ground that the balance of trade has always been in favour of India. In event of any exception of this taking place, it can easily be forded and met with. History shows this exception to have only occurred once in the past many many years and this cannot give a sufficient cause to justify the keeping any reserve gold outside of this country.

(4) With regard to clause 25 (6). This gives the Bank the power to invest the assets of its Issue Department in the balances and securities of the "gold standard countries". These investments are full of risks because it is a matter of common knowledge that war, political crisis and similar other emergencies would overthrow the gold standard existing the day previous. The investments therefore, in securities in such countries, are surely exposed to a constant danger of serious depreciation and even total disappearance. I earnestly appeal, therefore, to

the Indian Legislature not to imperil the reserve behind our note issue in this hazardous manner. Of course England and the United States of America are exceptions, having the advantage of greater probabilities of maintaining a free gold market.

(5) With regard to clause 31 and clause 48. Taking both these of the revised draft together I am strongly of opinion that in all fairness the Bank should issue Gold Mohurs in exchange for gold bullion tendered, at the rate of 169.5024 grains of fine gold per Mohur, in any demanded quantities. And I would impose an obligation on the Governor General in Council to revise the Indian Coinage Act and to mint and supply Gold Mohurs to the Bank to enable it to adequately meet its demanded supplies. I must say that the arguments advanced by the Hon'ble the Finance Member in his Memorandum on the subject are far from being convincing.

(6) I do not agree with clause 32 (2) and clause 34. In my opinion, in place of "250 tolas of fine gold", "100 tolas of fine gold" should be substituted.

(7) The Schedule Second to the Bill dealing with the agreement with the Imperial Bank is not only unduly in favour of that body but absolutely one-sided. It also comes in the way of the development of the indigenous Bank. There can be no justification in handing over the Indian tax payer for twenty years gagged and bound hand and foot, at the tender mercies of private shareholders' concern and, in my opinion, it is our sacred duty to prevent such unnecessary sacrifice to the Indian Exchequer.

GOVIND DAS.

*The 8th August, 1927.*

I regret I am unable to agree with the majority of the members of the Committee in their decision for a Bank without share capital, and the manner in which it is suggested that the Directors be elected. I am, therefore, signing this report subject to the following minute of dissent.

In considering the establishment of a banking institution, the primary function of which is to control and stabilise credit and note issue finance great care must be exercised to ensure that its operations are directed by men of undoubted qualifications. Effective measures should be adopted not only to obviate the danger of either political or foreign influences, but to create a management whose operation will be free from political or subversive interests.

I cannot concur with the majority of the Committee on the question of a Reserve Bank without share capital. A most efficient operation of such a Bank can best be obtained by means of a shareholders' bank, for directors, who have much at stake through their ownership in industry and allied commercial interest will be more concerned with the success of the bank and its subsequent utility to the public than mere political office holders. Also there is no adequate guarantee that if the Reserve Bank is established without shareholders' capital, politicians will not canvass votes from various public bodies having a right of nominating members to the Board of Directors.

I do not incline to the opinion that a directorate responsible to private shareholders would tend to be controlled by vested interests or that conflicting motives would arise within the management of the bank between Indian and foreign capital. As for the fear that foreign vested interests might gain control, since the majority of the Board will be Indian as suggested in the report, there is nothing to prevent its refusing to allow foreigners to have any interest in the Bank. This fear may also be allayed by fixing the value of the shares to a small denomination of Rs. 100 each instead of Rs. 500 each as suggested by the Currency Commission and by reducing the maximum rate of interest to 6 per cent. in order that the shares may be easily held by small genuine investors without much temptation to dispose of them at fancy premium.

In establishing so important an institution as the Reserve Bank it would certainly seem in order to consider the methods followed by other countries of the world in effecting satisfactory reserve bank systems. The United States, Great Britain and France have found joint stock principles suitable in the creation of central banking systems which have proved efficient and there is no reason why they should not be applicable to India.

Granting, without prejudice to my opinion, that it may be desirable to start a Bank without share capital, it is contrary to the interest of any Bank to have its Directors nominated by any Legislatures. By this procedure the Bank will be consigned to the mercy of the political party in power and with so many parties in various legislatures it can be readily seen that it would prove very difficult for them to select qualified and practical men to conduct the business of the Bank. This would result in having men of many masters with possibly very little knowledge of finance at the helm. Political control and political agitations are factors which should not be permitted to effect the operation of any Bank, more particularly a note issue Bank.

There is every reason to keep the authority which controls currency out of politics and it would seem to me that the one great objective in establishing a Reserve Bank is to exclude currency and exchange from the hands of Legislature and Government. If, by vesting control under Legislature, the Bank is brought under Government and legislative control, its worthy object will be utterly defeated. With particular reference to the intermingling of politics and finance of the country I believe that the temptation of watering the currency is too great a one to ever be placed in the hands of political members. I, therefore, maintain that a shareholders' bank is the *only* possible solution for keeping politics and banking apart, particularly in a bank of this type.

The argument for the retention of sovereigns and half sovereigns as legal tender coins, I believe to be untenable, for sovereign has at no time in the past been employed as a legal tender coin. Furthermore, the rate of Rs. 13-5-4 is extremely inconvenient for practical business operations.

KIKABHAI PREMCHAND.

BOMBAY:

*The 8th August, 1927.*

1. I wish to make it clear that I do not give up my conviction as expressed in paragraphs 61-64



of my Minute of Dissent on the Report of the Royal Commission on Indian Currency and Finance. My view expressed there not having met with the approval of the Joint Committee, I tried on the Committee to mould the Bill in a manner least likely to injure the normality of the Indian Money Market and conditions.

2. In proviso to clause 23 of the Bill, I suggest the insertion of the word 'hundis' after the word 'cheques'.

PURSHOTAMDAS THAKURDAS.

The 9th August, 1927.

1. I have signed a joint note with Messrs. A. Rangaswami Iyengar and R. K. Shanmukham Chetty.

2. In addition to the matters referred to therein, I wish to express my dissent on the following points also.

3. I cannot agree to clause 5, sub-clause (d). As it stands, it will keep out from the Board men of eminence in public affairs who were engaged in the professions of Law, Medicine, Teaching, and the like. The clauses in other enactments establishing Central Banks which require directors to be men who are or have been actively engaged in Agriculture, Commerce, Finance or Industry appear as qualification clauses in the case of a portion of the directorate

and not in the form of a general disqualification clause.

Clause 8 (1) (a).—My recollection is that the amendment proposed in the Joint Committee was to the effect that of the Governor and Deputy Governor one *at least* shall be an Indian. The words *at least* do not appear in the clause as finally printed. In any case I press for the words *at least* being inserted to make the intention clear that both may be Indians, if possible.

V. RAMADAS PANTULU.

As regards the constitution I have an open mind.

FAZAL I. RAHIMTOOLA.

1. I am opposed to the principle of making Central or Provincial Legislature as constituencies to elect directors of the Bank;

2. Any scheme of Directors which is finally adopted should contain—

(a) a general provision to the effect that the interests of agriculturists and minority communities are fairly and adequately represented;

(b) His Excellency the Viceroy shall nominate 4 directors.

GHAZANFAR ALI.

[Words printed in italics indicate the amendments suggested by the Committee.]

▲

## BILL

TO

*Establish a gold standard for British India, and constitute a Reserve Bank of India.*

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

### CHAPTER I.

#### PRELIMINARY.

1. (1) This Act may be called the Gold Standard and Reserve Bank of India Act, 192 .

(2) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(3) This section shall come into force at once and the remaining provisions of this Act shall come into force on such date or dates, not later than the 1st day of July, 1929, as the Governor General in Council may, by notification in the Gazette of India, appoint.

(4) Chapter III shall be in force for a period of twenty-five years, and its operation may thereafter be extended for such further period or periods as the Governor General in Council may, by notification in the Gazette of India, direct.

2. In this Act, unless there is anything repugnant in the subject or context,—

- Definitions.
- (a) " the Bank " means the Reserve Bank of India constituted by this Act ;
  - (b) " the Banking Department " means and includes all departments of the Bank other than the Issue Department ;
  - (c) " bank rate " means the rate published by the Bank under section 41 ;
  - (d) " the Board " means the Board of Directors constituted in accordance with section 8 ;
  - (e) " bank note " means paper money issued by a bank ;
  - (f) " gold standard country " means any country, other than British India, from which any person is at liberty to export gold and in which any person may obtain gold on demand from the principal currency authority on payment of the equivalent thereof, as prescribed by law, in legal tender currency ;

- (g) "Issue Department" means that department of the Bank which is charged by section 17 with the conduct and management of the note issue ;
- (h) "provincial co-operative bank" means any society or company registered or deemed to be registered under the Co-operative Societies Act, 1912, or registered II of 1912. under the Indian Companies Act, 1913, VII of 1913, whose sole business and object is the financing of those societies in a province which are registered societies as defined in the Co-operative Societies Act, 1912 ; II of 1912.
- (i) "the Reserve" means the assets of the Issue Department as specified in section 25 ;
- (j) "the Reserve Fund" means the Reserve Fund referred to in section 40 ;
- (k) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906 ; and III of 1906.
- (l) "scheduled bank" means a bank included in the First Schedule.

## CHAPTER II.

### INCORPORATION, CAPITAL, MANAGEMENT AND BUSINESS.

#### *Establishment and incorporation of the Reserve Bank of India.*

3. (1) A Bank to be called the Reserve Bank of India shall be constituted Establishment and incorporation of Reserve Bank. for the purpose of taking over the management of the currency from the Governor General in Council and of carrying on the business of banking in accordance with the provisions of this Act.

(2) The Bank shall be a body corporate by the name of the Reserve Bank of India, having perpetual succession and a common seal, and shall by the said name sue and be sued.

#### *Capital.*

4. (1) The original capital of the Bank shall be five crores of rupees which shall be subscribed by the Governor General in Council.

(2) The capital of the Bank may, with the previous sanction of the Governor General in Council, be increased or decreased in such manner and to such extent as the Board thinks necessary ; and any such increase of capital shall be subscribed by the Governor General in Council.

#### *Head Office Branches and Agencies.*

5. The Head Office of the Bank shall be established in Bombay, and Branches and agencies. the Bank shall have branches in Calcutta, Madras, Rangoon and London, and may establish branches or agencies in any other places in India or with the previous sanction of the Governor General in Council, elsewhere.

*Management of the Bank.*

6. The general superintendence of the affairs and business of the Bank shall be entrusted to a Board of Directors which may exercise all powers and do all such acts and things as may be exercised or done by the Bank *under this Act*.

7. Save as expressly provided in this Act, no person may be a Director qualified for directorships who—

- (a) is an officer of Government, or
- (b) is a Director of any other bank not being a registered society as defined in the Co-operative Societies Act, 1912, or II of 1912.
- (c) is an officer or employee of any bank, or
- (d) is not or has not at some time been actively engaged in agriculture, commerce, finance or industry.

*Explanation.*—For the purposes of clause (d), a person who is or has been a director of any company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or of a corporation or company incorporated by or under any law for the time being in force in any place outside British India shall be deemed to be or to have been actively engaged in commerce, finance or industry. VII of 1911

8. (1) The Board shall consist of the following Directors, namely :—

- (a) a Governor and Deputy Governor of whom one shall be an Indian and who shall be appointed by the Governor General in Council for a period of five years and shall devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances respectively as may be determined by the Board :

*Provided that the salaries and allowances of the first Governor and Deputy Governor shall be such as may be fixed by the Governor General in Council ;*

- (b) two Directors, who shall be Indians, nominated by the Governor General in Council ;
- (c) four Directors, of whom two shall be elected by the Associated Chambers of Commerce and two shall be elected by the Federation of the Indian Chambers of Commerce ;
- (d) one Director to be elected by the provincial co-operative banks ;
- (e) three Directors to be elected by the elected members of the Indian Legislature, of whom one shall be elected to represent the interests of commerce and industry ;
- (f) three Directors to be elected by the elected members of the Legislatures of the Governor's provinces, of whom two shall be elected to represent the interests of agriculture, and one to represent the interests of commerce and industry ;
- (g) an officer of the Government appointed by the Governor General in Council.

(2) Before appointing any Governor or Deputy Governor other than the first, the Governor General in Council shall consider any recommendation made by the Board in that behalf.

(3) The Directors elected under clauses (c) and (d) of sub-section (1) shall hold office for a period of five years, and the Directors nominated or elected under clauses (b), (e) and (f) shall hold office for a period of three years, but any Director shall be eligible for re-nomination or re-election.

(4) *The Director appointed under clause (g) of sub-section (1) may attend any meeting of the Board and take part in its deliberations, but shall not be entitled to vote on any question arising at any such meeting.*

(5) *Any Director nominated or elected to fill a casual vacancy shall hold office only for the unexpired portion of the term of office of his predecessor, but shall be eligible for re-nomination or re-election.*

(6) *All elections under this section shall be according to the principle of proportional representation by means of the single transferable vote, and shall be held in accordance with regulations made by the Governor General in Council and published in the Gazette of India.*

(7) *Regulations made under sub-section (6) may provide for all matters for which provision is, in the opinion of the Governor General in Council, necessary or expedient for the proper conduct of elections or for the final decision of doubts or disputes regarding the qualifications of any candidate for elections or regarding the validity of elections.*

9. *The Governor or Deputy Governor or any Director other than the Deputy Governor or Director appointed under clause (g) of sub-section (1) of section 8, may be removed from office by the Governor General in Council before the expiration of his period of office if a resolution is passed in this behalf by the Board by a majority consisting of not less than ten Directors.*

10. *Meetings of the Board shall be convened at least once in each month by the Governor. Meetings shall ordinarily be held in Bombay, but at least three meetings of the Board shall be held in Calcutta in each year.*

#### *Business of the Bank.*

11. *The Bank shall be authorised to carry on and transact the several kinds of business hereinafter specified, namely :—*

(1) *the accepting of money on deposit without interest from, and the collection of money for, any person ;*

(2) (a) *the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and arising out of bona fide commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;*

(b) *the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank or a provincial co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within six months from the date of such purchase or rediscount, exclusive of days of grace : provided that the total face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fourth of the total face value*

of all bills and notes purchased or rediscounted by the Bank *up to that time* ;

(c) the purchase, sale and rediscount of bills of exchange and promissory notes, *drawn and payable in India and bearing the signature of a scheduled bank, and issued or drawn for the purpose of holding or trading in securities of the Government of India or a Local Government, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace* ;

- (3) the purchase from and sale to *scheduled banks and persons approved by the Board, in amounts of not less than the equivalent of one lakh of rupees, of the currencies of such gold standard countries as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, and of bills of exchange (including treasury bills) drawn in or on any place in any such country, and maturing within ninety days from the date of such purchase, exclusive of days of grace ; and the keeping of balances with banks in such countries* ;
- (4) the making of loans and advances, *repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of—*
- (a) *stocks, funds and securities (other than immoveable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any law for the time being in force in British India* ;
- (b) *gold coin or bullion, or documents of title to the same* ;
- (c) *such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank : provided that the total of the loans and advances against such securities as are referred to in sub-clause (b) of clause (2) shall not at any time exceed one-fourth of the total loans and advances made by the Bank up to that time* ;
- (d) *such bills of exchange as are eligible for purchase by the Bank under clause (3)* ;
- (e) *promissory notes of any scheduled bank or a provincial co-operative bank, supported by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for a cash credit granted for bona fide commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops : provided that no loan or advance shall be made on the security of any promissory note such as is referred to in this sub-clause after the expiry of five years from the date on which this section comes into force* ;
- (5) the making of advances to the Governor General in Council repayable in each case not later than three months after the close of the financial year in respect of which the advance has been made ;

- (6) the issue of demand drafts and the making, issue and circulation of bank post bills made payable on its own branches ;
- (7) the purchase and sale of securities, maturing within five years from the date of such purchase, of the Government of any gold standard country specified in this behalf by the Governor General in Council by notification in the Gazette of India ;
- (8) the purchase and sale of securities of the Government of India of any maturity, or of a Local Government or of a local authority in British India maturing within ten years from the date of purchase : provided that the amount of such securities held at any time in the Banking Department shall be so regulated that—
- (a) the total value of such securities shall not exceed the aggregate amount of the capital of the Bank, the Reserve Fund and two-fifths of the liabilities of the Banking Department in respect of deposits ;
- (b) the value of such securities maturing after six months shall not exceed the aggregate amount of the capital of the Bank, the Reserve Fund and one-fifth of the liabilities of the Banking Department in respect of deposits ;
- (c) the value of such securities maturing after one year shall not exceed the aggregate amount of the capital of the Bank, the Reserve Fund and one-tenth of the liabilities of the Banking Department in respect of deposits ; and
- (d) the value of such securities maturing after ten years shall not exceed the aggregate amount of the capital of the Bank and the Reserve Fund ;
- (9) the custody of monies, securities and other articles of value, and the collection of the proceeds, whether principal, interest or dividends, of any such securities ;
- (10) the sale and realisation of all property, whether moveable or immovable, which may in any way come into the possession of the Bank in satisfaction, or part satisfaction, of any of its claims ;
- (11) the acting as agent for the Secretary of State in Council, the Governor General in Council or any Local Government in the transaction of any of the following kinds of business, namely :—
- (a) the purchase and sale of gold or silver ;
- (b) the purchase, sale, transfer and custody of bills of exchange, securities or shares in any company ;
- (c) the collection of the proceeds, whether principal, interest or dividends, of any securities or shares ;
- (d) the remittance of such proceeds, at the risk of the principal, by bills of exchange payable either in India or elsewhere ;
- (e) the management of public debt ;
- (12) the purchase and sale of gold coin and bullion ;

- (13) the opening of an account with, and the acting as agent or correspondent of, any other bank which is the principal currency authority of a gold standard country under the law for the time being in force in that country or any of the Federal Reserve Banks in the United States of America ;
- (14) the borrowing of money for a period not exceeding one month for the purposes of the business of the Bank, and the giving of security for money so borrowed :
- Provided that the total amount of such borrowings shall not at any time exceed five crores of rupees or half the aggregate amount of the capital of the Bank and of the Reserve Fund for the time being whichever is greater :*
- Provided, further, that no money shall be borrowed under this clause from any person in British India other than a scheduled bank ;*
- (15) the making and issue of bank notes subject to the provisions of this Act ; and
- (16) generally, the doing of all such matters and things as may be incidental or subsidiary to the transaction of the various kinds of business hereinbefore specified.

12. When, in the opinion of not less than two-thirds of the Directors present at a meeting of the Board, it is necessary or expedient that action should be taken under this section in the interests of Indian trade or commerce or for the purpose of enabling the Bank to perform any of its functions under this Act, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) of section 11, purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount, exclusive of days of grace.

13. Save as otherwise provided in sections 11 and 12, the Bank may not—

- (1) engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking except such interest as it may in any way acquire in the course of the satisfaction of any of its claims: provided that all such interests shall be disposed of at the earliest possible moment ;
- (2) purchase the shares of any other bank, or of any company, or grant loans upon the security of any such shares ;
- (3) advance money on mortgage of, or otherwise on the security of, immoveable property or documents of title relating thereto, or become the owner of immoveable property, except so far as is necessary for its own business premises and residences for its officers and servants ;
- (4) make unsecured loans or advances ;
- (5) draw or accept bills payable otherwise than on demand ;
- (6) allow interest on deposits or current accounts.



CHAPTER III.

CENTRAL BANKING FUNCTIONS.

*Relations of the Bank with the Secretary of State in Council, the Governor General in Council and Local Governments.*

14. The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations, including the management of the public debt, on such conditions as may be agreed upon.

15. (1) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall undertake to entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and elsewhere and, in particular, to deposit free of interest all their cash balances with the Bank:

Provided that nothing in this sub-section shall prevent the Governor General in Council or any Local Government from carrying on money transactions at Government treasuries or sub-treasuries at places where the Bank has no branches or agencies, and the Governor General in Council and Local Governments may hold at such treasuries and sub-treasuries such balances as they may require.

(2) The Governor General in Council and each Local Government shall undertake to entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans.

*Note Issue.*

16. (1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period of one year from the date on which this Chapter comes into force, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions of this Act applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the Bank in like manner as if such currency notes were bank notes, and references in this Act to bank notes shall be construed accordingly.

(2) On and from the aforesaid date the Governor General in Council shall not issue any currency notes or any other kind of paper money.

17. (1) The issue of bank notes shall be conducted by the Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department as hereinafter defined in section 26.

(2) The Issue Department shall not issue bank notes to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

18. Bank notes shall be of the denominational values of *one-quarter mohur or five rupees, one-half mohur or ten rupees, one mohur or twenty rupees, two-and-a-half mohurs or fifty rupees, five mohurs or a hundred rupees, twenty-five mohurs or five hundred rupees, fifty mohurs or a thousand rupees, and five hundred mohurs or ten thousand rupees, and of such other denominational values, if any, as may be directed by the Governor General in Council.*

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

20. (1) Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in British India in payment or an account for the amount expressed therein, and shall be guaranteed by the Governor General in Council.

(2) The Governor General in Council may, by notification in the Gazette of India, declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination shall cease to be legal tender save at an office or agency of the Bank.

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

22. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Bank the value of any lost, stolen, mutilated or imperfect bank note :

Provided that the Bank may, with the previous sanction of the Governor General in Council, prescribe the circumstances in, and the conditions and limitation subject to, which the value of such bank notes may be refunded as of grace.

*Prohibition of issue of private bills or notes payable to bearer on demand.*

23. No person in British India other than the Bank or, as expressly authorised by this Act, the Governor General in Council, shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such person :

Provided that cheques or drafts payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

24. (1) Any person contravening the provisions of section 23 shall, on conviction by a Presidency Magistrate or a Magistrate of the first class, be punishable with a fine equal to the amount of the bill, hundi, note or engagement in respect whereof the offence is committed.

(2) No prosecution under this section shall be instituted except on complaint made by the Bank.

*Assets of the Issue Department.*

25. (1) The Reserve shall consist of gold coin, gold bullion, gold securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.

(2) Of the total amount of the Reserve, not less than two-fifths shall consist of gold coin, gold bullion or gold securities :

Provided that the amount of gold coin and gold bullion shall not at any time be less than *thirty crores of rupees* in value and shall not be less than one-fifth of the total amount of the Reserve after the end of the fifth year, or than one-quarter of the total amount of the Reserve after the end of the tenth year, from the date on which this Chapter comes into force, and that, after the end of the tenth year aforesaid, not more than one-half of the total amount of gold coin, gold bullion and gold securities shall at any time consist of gold securities.

(3) The remainder of the Reserve shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes drawn and payable in British India as are eligible for purchase by the Bank under sub-clause (a) or sub-clause (b) of clause (2) of section 11 or under section 12 :

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

(a) during the three years after the date on which this Chapter comes into force, *ninety-five crores of rupees,*

(b) during the next three years, *seventy-five crores of rupees,*

(c) during the next four years, *sixty crores of rupees,* and

(d) *fifty crores of rupees* thereafter,

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

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

(4) For the purposes of this section, gold coin (other than *sovereigns, half-sovereigns and mohurs*) and gold bullion shall be valued at 8.47512 grains of fine gold per rupee, *sovereigns, half-sovereigns and mohurs* and rupee coin shall be valued at their face value, and gold and rupee securities shall be valued at the market rate for the time being obtaining.

(5) Of the gold coin and gold bullion held in the Reserve not less than *seventeen-twentieths* shall be held in British India, and all gold coin and gold bullion forming part of the Reserve shall be held in the custody of the Bank or its agencies :

Provided that gold belonging to the Bank which is in any other bank or in any mint or in transit may be reckoned as part of the Reserve.

(6) For the purposes of this section, the gold securities which may be held as part of the Reserve shall be securities of any of the following kinds payable in the currency of any of such gold standard countries as may be specified in this behalf

bullion and securities shall be transferred in such proportion as to comply with the requirements of section 25 :

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

*Supply of coin, and of different forms of legal tender currency.*

28. The Bank may deliver to the Governor General in Council all surplus rupee coin held by it in excess of the amount which the Issue Department is permitted to hold as part of the Reserve under section 25, against payment of four rupees in bank notes, gold or gold securities for every five rupees so delivered.

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

30. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 28 nor to put into circulation any new rupees, except through the Bank and on the Bank's demand; and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation or by delivery to the Governor General in Council under that section.

31. The Bank shall issue rupee coin on demand in exchange for different forms of currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin, which is legal tender under the Indian Coinage Act, 1906, and it shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value or mohurs or rupees or other coins which are legal tender under the Indian Coinage Act, 1906, in such quantities as may, in the opinion of the Bank, be required for circulation; and the Governor General in Council shall, subject to the provisions of section 29, and of sub-section (1) of section 3A of the Indian Coinage Act, 1906, supply such mohurs, rupees or other coins to the Bank on demand. If the Governor General in Council at any time fails to discharge this duty, the Bank shall be released from its obligations to supply such coins to the public.

*Obligation to sell gold and gold exchange.*

32. (1) The provisions of this section shall have effect from such date, not later than the 1st day of July 1931, as the Governor General in Council may, by notification in the Gazette of India, appoint.

(2) The Bank shall sell gold bullion for delivery in Bombay to any person who makes a demand in that behalf at its office at Bombay, Calcutta,

Madras or Rangoon and pays in legal tender currency the purchase price as determined under the provisions of this section :

Provided that no person shall be entitled to demand an amount of gold bullion containing less than 250 tolas of fine gold.

(3) The price of gold bullion for delivery in Bombay shall be twenty-one rupees, three annas and ten pies per tola of fine gold with an addition representing twice the normal cost per tola of transferring gold bullion in bulk from Bombay to such place in a gold standard country as may be specified in this behalf by the Governor General in Council by notification in the Gazette of India, including interest on its value during transit :

Provided that no such addition shall be made when the rate at which the currency of the country in which the place so specified is situate can be purchased in Bombay for immediate delivery at that place is such that the equivalent of the price at which the principal currency authority of that country is bound by law to give gold in exchange for currency is less than twenty-one rupees, three annas and ten pies per tola of fine gold by an amount equal to or greater than the normal cost per tola of transferring gold bullion in bulk from the specified place to Bombay, including interest on its value during transit.

(4) The Governor General in Council shall from time to time determine, in accordance with the provisions of sub-section (3), the price at which the Bank shall sell gold bullion for delivery in Bombay, and shall notify the price so determined in the Gazette of India. Such notification shall be conclusive as between the Bank and any other person as to the price which the Bank shall be entitled to charge in respect of any sale of gold bullion.

33. (1) The Bank shall sell, to any person who makes a demand in that behalf at its office at Bombay, Calcutta, Madras or Rangoon and pays the purchase price in legal tender currency, at a rate equivalent to twenty-one rupees, three annas and ten pies per tola of fine gold, the currency of such gold standard country as may be notified in this behalf by the Governor General in Council in the Gazette of India, for immediate delivery in that country :

Provided that no person shall be entitled to demand an amount of currency of less value than that of 250 tolas of fine gold.

(2) For the purpose of determining the equivalent rate applicable to the sale of currency under this section, twenty-one rupees, three annas and ten pies shall be deemed to be equivalent to such sum in that currency as is required to purchase one tola of fine gold in that country at the rate at which the principal currency authority of that country is bound by law to give currency in exchange for gold, after deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to that country, including interest on its value during transit.

(3) The Governor General in Council shall from time to time determine the equivalent rate in accordance with the provisions of sub-section (2), and shall notify the rate so determined in the Gazette of India.

*Obligation to buy gold.*

34. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Madras or Rangoon, gold bullion for delivery in Bombay at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold, if such gold is tendered in the form of bars containing not less than 250 tolas of fine gold :

Provided that the Bank shall be entitled to require such gold bullion to be melted, assayed and refined, by persons approved by the Bank, at the expense of the person tendering the bullion.

*Suspension of Reserve requirements and tax on note issue.*

35. (1) The Bank may, with the previous sanction of the Governor General in Council, for periods not exceeding thirty days in the first instance, which may, with the like sanction, be extended from time to time by periods not exceeding fifteen days, hold in the Reserve gold coin, gold bullion or gold securities of less aggregate amount than that required by sub-section (2) of section 25 and, whilst the holding is so reduced, the proviso to that sub-section shall cease to be operative.

(2) In respect of any period during which the holding of gold coin, gold bullion and gold securities is reduced under sub-section (1), the Bank shall pay to the Governor General in Council a tax upon the amount by which such holding is reduced below the minimum prescribed by sub-section (2) of section 25 ; such tax shall be payable at the bank rate for the time being in force with an addition of one per cent. per annum when such holding exceeds thirty-two and-a-half per cent. of the total amount of the Reserve and of a further one-and-a-half per cent. per annum in respect of every further decrease of two-and-a-half per cent. or part of such decrease :

Provided that the tax shall not in any event be payable at a rate less than six per cent. per annum.

36. Save as provided by section 35, the Bank shall not be liable to the payment of any stamp-duty or other duty or tax in respect of bank notes issued by it.

*Duration of the privilege of note issue.*

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

*Cash reserves to be maintained by banks.*

35. (1) Every scheduled bank shall maintain a balance with the Reserve Bank the amount of which shall at no time be less than seven and one-half per cent. of the daily average of the demand, and two and one-half per cent. of the daily average of the time liabilities of such bank in India.

(2) For the purposes of sub-section (1), the daily average of the amounts of the demand and time liabilities of each scheduled bank shall be computed in respect of each period ending on the fifteenth and on the last day of each month.

(3) Every such bank shall send to the Governor General in Council and to the Bank a monthly return signed by two responsible officers of such bank, showing—

- (a) the amounts of its demand and time liabilities respectively in India,
- (b) the total amount held in India in currency notes of the Government of India and bank notes,
- (c) the amounts held in India in rupee coin and subsidiary coin respectively,
- (d) the amounts of advances made and of bills discounted in India respectively, and
- (e) the balance held at the Bank,

at the close of the month to which the return relates.

(4) Every such return shall be sent not later than fourteen days after the close of the month to which it relates, and shall state whether the bank has during that month maintained with the Reserve Bank the minimum balance required by sub-section (1).

(5) Any bank failing to comply with the provisions of sub-section (3) or sub-section (4) shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty of one hundred rupees for each day during which the failure continues.

(6) When it appears from any such monthly return or from a report of the Board that any scheduled bank has failed to maintain the minimum balance required by sub-section (1), the Governor General in Council may call for such further return, or make such inspection of the books and accounts of that bank, as may be necessary to ascertain the amount of the deficiency, if any, and the period during which it has continued; and a bank so in default shall be liable, on application made by or on behalf of the Governor General in Council to the principal Civil Court having jurisdiction in a place where an office of the bank is situated, to a penalty at a rate per annum which shall be three per cent. above the bank rate on the amount of the deficiency for each day during which the default has continued, and shall be raised to five per cent. above the bank rate after the first seven days of the deficiency.

(7) The Governor General in Council shall, by notification in the Gazette of India, direct the inclusion in the First Schedule of any company, not

already so included, which carries on the business of banking in British India and which—

(a) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913, or a corporation or company incorporated by or under any law in force in any place outside British India, and VII of 1913.

(b) has a paid-up capital and reserves of an aggregate value of not less than three lakhs of rupees ;

and shall, by a like notification, direct the exclusion from that Schedule of any scheduled bank the aggregate value of whose paid-up capital and reserves at any time becomes less than three lakhs of rupees.

*Agreement with the Imperial Bank of India.*

39. The Bank shall enter into an agreement with the Imperial Bank of India which shall be subject to the approval of the Governor General in Council and shall be expressed to come into force on the date on which this Chapter comes into force and to remain in force for twenty-five years, and shall further contain the provisions set forth in the Second Schedule.

#### CHAPTER IV.

##### GENERAL PROVISIONS.

*Reserve Fund and allocation of surplus.*

40. After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, one-half of the net annual profits of the Bank shall be allocated to a Reserve Fund until such Reserve Fund is equal to two-and-one-half crores of rupees, and the remaining one-half shall be paid to the Governor General in Council. Thereafter, until the Reserve Fund is equal to five crores of rupees, one-tenth of the net annual profits shall be allocated to the Reserve Fund, and the balance shall be paid to the Governor General in Council. When the Reserve Fund is equal to five crores of rupees, the whole of the net annual profits shall be paid to the Governor General in Council :

Provided that, until the Reserve Fund is equal to five crores of rupees, fifty lakhs of rupees of the net annual profits, or the whole of such profits if they are less than that amount, shall be allocated to the Reserve Fund :

Provided, further, that the Board may, with the sanction of the Governor General in Council, if the Reserve Fund is equal to five crores of rupees, allocate a sum not exceeding one-twentieth of the net annual profits in any year to the repayment, in whole or in part, of any of its capital subscribed by the Governor General in Council, in which case an amount equal to the amount of the capital so repaid shall be added to the Reserve Fund.

*Bank rate.*

41. The Bank shall make public from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act.



*Audit.*

42. (1) *The auditors of the Bank shall not be less than two in number, shall be appointed annually by the Board, and shall receive such remuneration as the Board may determine.*

(2) *Any casual vacancy during a year in the office of any auditor shall be filled by the Board.*

43. Without prejudice to anything contained in section 42, the Governor-General in Council may at any time appoint such auditors as he thinks fit to examine and report upon the accounts of the Bank.

44. (1) Every auditor shall be supplied with a copy of the annual balance-sheet, and it shall be his duty to examine the same, together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Bank, and shall at all reasonable times have access to the books, accounts and other documents of the Bank, and may, at the expense of the Bank if appointed by it or at the expense of the Governor-General in Council if appointed by him, employ accountants or other persons to assist him in investigating such accounts, and may, in relation to such accounts, examine any Director or officer of the Bank.

(2) The auditors shall make a report to the Board and to the Governor-General in Council or, in the case of auditors appointed under section 43, to the Governor-General in Council, upon the annual balance-sheet and accounts, and in every such report they shall state whether, in their opinion, the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs, and, in case they have called for any explanation or information from the Board, whether it has been given and whether it is satisfactory.

*Returns.*

45. (1) The Bank shall prepare and transmit to the Governor-General in Council a weekly account of the Issue Department and of the Banking Department in the Form set out in the Third Schedule or in such other Form as the Governor-General in Council may, by notification in the Gazette of India, prescribe. The Governor-General in Council shall cause these accounts to be published weekly in the Gazette of India.

(2) The Bank shall also, within two months from the date on which the annual accounts of the Bank are closed, transmit to the Governor-General in Council a copy of the annual account signed by the Governor, Deputy Governor and the Chief Accounting Officer of the Bank, and certified by the auditors, and the Governor-General in Council shall cause such accounts to be published in the Gazette of India.

*Liquidation.*

46. (1) Nothing in the Indian Companies Act, 1913, shall apply to the Bank, and the Bank shall not be placed in voluntary or compulsory liquidation save with the sanction of the Governor-General in Council and in such manner as he may direct.

(2) Directions under sub-section (1) may provide for the disposal of the assets of the Bank.

*Regulations.*

47. (1) The Board may, with the previous sanction of the Governor General in Council, make regulations consistent with this Act to provide for all matters for which provision is necessary or convenient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing provision, such regulations may provide for all or any of the following matters, namely:—

- (a) the manner in which the business of the Board shall be transacted, and the procedure to be followed at meetings thereof;
- (b) the establishment of Local Boards and the delegation to such Boards of powers and functions;
- (c) the constitution and management of staff and superannuation funds for the officers and servants of the Bank;
- (d) the manner and form in which contracts binding on the Bank may be executed;
- (e) the provision of an official seal of the Bank and the manner and effect of its use;
- (f) the manner and form in which the balance-sheet of the Bank shall be drawn up, and in which the accounts shall be maintained;
- (g) the circumstances in which, and the conditions and limitations subject to which, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note may be refunded; and
- (h) generally, for the efficient conduct of the business of the Bank.

*Amendments and Repeal.*

48. In the Indian Coinage Act, 1906, the following- III of 1906, Amendment of Act III of 1906. ing amendments shall be made, namely:

(1) After section 3 the following section shall be inserted, namely:—

“ 3A. (1) A gold coin, to be called a mohur, shall be coined at the Mint in such quantity as the Governor General in Council may direct.

(2) The standard weight of the mohur shall be 188.336 grains troy, and its standard fineness shall be nine-tenths of fine gold and one-tenth of alloy:

Provided that, in the making of the coin, a remedy shall be allowed not exceeding two-thousandths in weight and two thousandths in fineness.”

(2) In clause (a) of sub-section (1) of section 10 after the words “referred to in” the words “sub-section (1) of section 3A and” shall be inserted.

(3) For section 11 the following sections shall be substituted, namely :—

“ 11. Gold coins, coined at His Majesty's Royal Mint in England or at any Mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall be a legal tender in British India in payment or on account at the rate of thirteen and one-third rupees for one sovereign :  
Sovereigns and half-sovereigns a legal tender.

Provided that such coins have not been called in by any Proclamation made in pursuance of the Coinage Act, 1870, or have not lost weight so as to be of less weight than that for the time being prescribed for like coins by or under the said Statute as the least current weight.

33 & 34  
Vict., c. 10.

11A. A mohur shall be a legal tender in payment or on account :  
Mohurs a legal tender.

Provided that the mohur —

(a) has not lost in weight so as to be of less weight than 187.153 grains, and

(b) has not been defaced.”

(4) In sub-section (1) of section 12, after the words “ on account ” the words “ at the rate of twenty rupees for one mohur ” shall be inserted.

(5) In section 16, for the words “ where any silver coin ” the words “ where any gold or silver coin ” shall be substituted.

(6) In section 20, for the word “ silver ”, wherever it occurs, the words “ gold or ” shall be substituted.

(7) In sub-section (2) of section 21—

(a) in clause (a), after the words “ allowed by ” the words “ sub-section (2) of section 3A and ” shall be inserted ; and

(b) the word “ and ” shall be added at the end of clause (d), and after that clause the following clause shall be added, namely :—

“ (e) provide for the acceptance at prescribed rates by officers authorised in this behalf of the gold coins described in section 11 where such coins have lost weights so as to be of less weight than that for the time being prescribed for like coins by or under the Coinage Act, 1870, as the least current weight.”

33 & 34 Vict. ;  
c. 10.

49. The Indian Paper Currency Act, 1923, and the Currency Act, 1927, X of 1923, IV of 1927, are hereby repealed.

## THE FIRST SCHEDULE.

[See section 2 (l).]

## SCHEDULE OF BANKS.

Ajodhia Bank, Fyzabad.	Mercantile Bank of India.
Allahabad Bank.	Bank of Morvi.
Bangalore Bank.	Bank of Mysore.
Bank of Baroda.	Muffasil Bank, Gorakhpur.
Benares Bank.	Mysore Industrial Bank.
• Bari Doab Bank, Lahore.	Nedungadi Bank, Calicut.
Bhawanipore Banking Corporation, Calcutta.	Namboodiri Bank, Pallippuram.
Bombay Merchants' Bank, Bombay.	National Bank of India.
Byopar Sahayak Bank, Meerut.	Oudh Commercial Bank.
Bank of Behar.	Punjab National Bank.
Coimbatore Town Bank.	Punjab and Sind Bank, Amritsar.
Canara Bank.	• Punjab Co-operative Bank.
Central Bank of India.	Punjab and Kashmir Bank, Rawalpindi.
Chota Nagpur Banking Association.	P. and O. Banking Corporation.
Chartered Bank of India, Australia and China.	Shilotri Bank, Bombay.
Dawsons Bank, Pyapon.	Simla Banking and Industrial Company.
Eastern Bank.	South India Bank, Tinnevely.
Grindlay and Company.	Thomas Cook and Sons.
Hongkong and Shanghai Banking Corporation.	Union Bank of India.
Bank of India, Bombay.	U. Rai Gyaw Thoo and Co., Akyab.
Imperial Bank of India.	Vellore Commercial Bank.
Imperial Bank of Persia.	American Express Company Incorporated.
Indian Bank.	Banco Nacional Ultramarino.
Indian Industrial Bank.	Comptoir National d'Escompte de Paris.
Industrial Bank of Western India.	International Banking Corporation.
Jalpaigori Banking and Trading Corporation.	Nederland Indische Handels Banks.
Karnani Industrial Bank.	Nederlandsche Handle-Matschappej.
Karachi Bank, Karachi.	Sumitomo Bank.
Lyalpur Bank.	Bank of Taiwan.
Lloyds Bank.	Yokohama Specie Bank.

## THE SECOND SCHEDULE.

(See section 39.)

*Provisions to be contained in the agreement between the Reserve Bank of India and the Imperial Bank of India.*

1. The Imperial Bank of India shall be the sole agent of the Reserve Bank of India at all places in British India where there is a branch of the Imperial Bank of India and no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance by the Imperial Bank of India on behalf of the Reserve Bank of India of the functions which the Imperial Bank of India was performing on behalf of the Governor General in Council at the places referred to in clause 1 before the coming into force of the Reserve Bank of India Act, 192 , the Reserve Bank of India shall pay to the Imperial Bank of India a commission calculated on the total of the receipts and disbursements dealt with annually on account of Government by the Imperial Bank of India on behalf of the Reserve Bank of India. Such commission shall be one-sixteenth of one per cent. on the first 250 crores of such total and one-thirty-second of one per cent. on the remainder.

3. Subject to the condition that the Imperial Bank of India shall keep open branches not less in number than those existing at the time of the coming into force of the Reserve Bank of India Act, 192 , the Reserve Bank of India shall allow the following balances to the Imperial Bank of India at the interest rates hereinafter specified, namely :—

- (a) during the first five years from that time—3 crores free of interest ;
- (b) during the next five years—2 crores free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 1 crore at 2 per cent. per annum ;
- (c) during the next five years—1 crore free of interest and, at the option of the Imperial Bank of India, an amount not exceeding 2 crores at 2 per cent. per annum ; and
- (d) during the next five years—at the option of the Imperial Bank of India, an amount not exceeding 3 crores at 2 per cent. per annum.

4. The Imperial Bank of India shall not, without the approval of the Reserve Bank of India, open any branch in substitution for a branch existing at the time this agreement comes into force.

## THE THIRD SCHEDULE.

(See section 45.)

## RESERVE BANK OF INDIA.

An Account pursuant to the Gold Standard and Reserve Bank of India Act, 192 , for the week ending on the  
day of

Issue Department.

<i>Liabilities.</i>		<i>Assets.</i>	
	Rs.		Rs.
Bank Notes held in the Banking Department . . . . .		Rupee coin . . . . .	
Bank Notes in circulation . . . . .		Government of India rupee securities . . . . .	
Total Bank Notes issued . . . . .		Internal Bills of Exchange and other commercial paper . . . . .	
Government of India Notes in circulation . . . . .		Gold securities . . . . .	
Rupee redemption . . . . .		Gold coin or bullion—	
		(a) held in India . . . . .	
		(b) held outside India . . . . .	

Ratio of gold and gold securities to liabilities, per cent.

Dated the day of 19 .

Banking Department.

<i>Liabilities.</i>		<i>Assets.</i>	
	Rs.		Rs.
Capital paid up . . . . .		Notes . . . . .	
Reserve Fund . . . . .		Rupee coin . . . . .	
Deposits—		Subsidiary coin . . . . .	
(a) Government . . . . .		Bills discounted—	
(b) Banks . . . . .		(a) Internal . . . . .	
(c) Others . . . . .		(b) External . . . . .	
Bills payable . . . . .		(c) Government of India Treasury Bills . . . . .	
Other liabilities . . . . .		Balances held abroad . . . . .	
		Loans and advances to the Government . . . . .	
		Other Loans and Advances . . . . .	
		Investments . . . . .	
		Other Assets . . . . .	

Dated the day of 19 .

**GOVERNMENT OF INDIA.**  
**LEGISLATIVE DEPARTMENT.**

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**Report of the Joint Committee on the  
Bill to establish a gold standard for  
British India, and constitute a Reserve  
Bank of India; with the Bill as  
amended.**