

**JOINT/SELECT COMMITTEE  
REPORTS OF LEGISLATIVE  
ASSEMBLY - 1933**

**The Reserve Bank of India Bill**

List of Reports of Select or Joint Committees  
presented in the Legislative Assembly in 1933.

Serial No.	Short title of the Bill.	Date of presentation.	Remarks.
1.	The Hedjaz Pilgrims ( <u>Muallims</u> ) Bill.	6.2.33.	
2.	The Workmen's Compensation (Amendment) Bill.	14.2.33.	
3.	The Land Acquisition (Amendment) Bill.	14.2.33.	
4.	The Auxiliary Force (Amendment) Bill.	14.2.33.	
5.	The Indian Wireless Telegraphy Bill.	23.2.33.	
6.	The Indian Railways (Amendment) Bill (Sec. 51).	24.3.33.	
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11.	The Murshidabad Estate Administration Bill.	7.9.33.	
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13.	The Imperial Bank of India Bill.	20.11.33.	-do-
14.	The Indian Khaddar (Name Protection) Bill by Mr. Gaya Prasad Singh.	29.11.33.	
15.	The Indian Tariff (Second Amendment) Bill.	1.12.33.	

## LEGISLATIVE ASSEMBLY.

We, the undersigned, members of the Joint Committee to which the Bill to constitute a Reserve Bank of India was referred, have considered the Bill and have now the honour to submit this our Report, with the Bill as amended by us annexed thereto.

2. We first met in Simla on the 19th September, 1933, to elect our Chairman and settle some preliminary points of procedure. We then met in New Delhi and sat continuously from the 23rd October until the 16th November, 1933. We examined a number of witnesses and we take this opportunity of thanking them for the readiness with which they accepted our invitation and undertook long journeys at short notice to appear before us. Their evidence has been of very great help to us and has enabled us to suggest a large number of amendments in the Bill which we hope will ensure the smooth working of the new Bank, and prove beneficial to the general interests of the country.

3. We deal below with the Bill clause by clause referring to each clause by its original number. In the Bill, however, we have renumbered the clauses and, for convenience, the original numbering has been reproduced in the margin of the Bill as now printed.

*Preamble.*—We have made a verbal alteration to indicate more definitely what we consider to be the main purposes of the Bill.

*Clause 1.*—Although we agree that no specific date can be inserted for setting up the Bank, we desire to represent strongly to the Government that the Bank should be set up with all possible speed.

We have substituted the words "This Act" for "Chapter III" in sub-clause (4) because we do not see any reason why the other Chapters of the Bill should be treated differently from Chapter III.

*Clause 2, sub-clause (b).*—We considered whether it was necessary to frame a more comprehensive definition of "bank note" but decided that this was unnecessary and that the definition might be omitted.

*Sub-clause (d).*—We are of opinion that investments of external assets should be confined to Government securities of the United Kingdom and that purchases of foreign currency should be restricted to sterling. We have modified clauses 17 and 33 accordingly. The definition of sterling standard countries therefore becomes unnecessary.

*Sub-clause (e).*—We have altered the definition of "provincial co-operative bank" because the wording of the original Bill would not have covered the special conditions as regards co-operative banks in the United Provinces.

*Clause 4, sub-clause (1).*—In order to ensure that the shares of the Reserve Bank shall be widely held we recommend that the nominal value of each share should be reduced from Rs. 500 to Rs. 100.

*Sub-clause (2).*—It was represented to us that shares should not be allowed to be transferred from one register to another because this might lead to certain registers being denuded of a large number of shares, thus leaving the holders of a comparatively small number of shares to elect representatives to the Local Board and thereby to the Central Board. We have come to the conclusion that the advantages of free marketability are so great that transfers from one register to another should be freely allowed. We further consider that a contingency such as that referred to is extremely unlikely to arise and that a majority of the shares of the Reserve Bank when once allotted will be firmly held as a lock up investment by the original holders. If, contrary to our expectations, it is found that one register is accumulating a large number of shares while another is being denuded by a really substantial percentage, the Government should consider the question of bringing forward suitable amending legislation in order to rectify the position.

*Sub-clause (3).*—As regards the provisions of this sub-clause, while we are prepared to accord full equality of treatment to United Kingdom British subjects so long as they are normally resident in India on the ground that the United Kingdom Government gives the same reciprocal treatment to Indians resident there, the case is different as regards those Dominions which in various ways apply discriminatory provisions to the Indian subjects of His Majesty. We feel that every occasion should be taken to assert the principle that the citizens of such Dominions should not be allowed equal privileges in India so long as their Governments maintain any measure of discrimination against Indians, and we have taken the opportunity of this particular Bill to give effect to this principle by recommending changes in sub-clauses (3) (b) and (3)(c).

*Sub-clause (3) (c).*—As regards this sub-clause, it has also been brought to our notice that the limitations on share-holding provided for in sub-clauses (3) (a) and (3) (b) might be defeated if subjects of a foreign country or of a British Dominion which has discriminated against India were to form themselves into a limited company for the purpose of holding shares in the Reserve Bank, and we therefore considered whether some provision should be inserted to the effect that a company registered under the Indian Companies Act, 1913, should only be allowed to hold shares if a majority of the shareholders consisted of persons qualified under sub-clauses (3) (a) and (3) (b). It appeared to us on further examination, however, that any such provision would be extremely difficult to enforce in practice owing to the constant variations which would be possible in the shareholders of any company. On the other hand, the alternative of excluding companies not registered in India altogether would go too far, for there are many private and public companies formed for the purposes of investment which might hold shares in the Reserve Bank. We have not therefore proposed the introduction of any restriction, but

we recommend that the Government and the Central Board of the Reserve Bank should watch carefully for any signs of evasion of the purposes of sub-clauses (3) (a) and (3) (h) by the formation of companies by persons disqualified from holding shares. If any such abuse were to attain serious dimensions we think that the Government should consider amending legislation.

*Sub-clause (4).*—We have recommended the deletion of the discretionary power proposed to be vested in the Central Board to decline without giving any reasons to allot shares to any applicant or to register any transfer of shares.

*Sub-clauses (5) and (6).*—We consider that if the scheme for the election of Directors to the Boards of the Reserve Bank is to work satisfactorily the proviso to sub-clause (5) should be deleted and that sub-clause (6) should be amended in the manner suggested by us so as to restrict the sale by the Governor General in Council of unallotted shares only to residents of the areas concerned, except as regards a part of the unallotted shares from the Delhi area which we have treated as a special case.

We have carefully considered the manner of allotment of shares in order to secure as wide a distribution of voting rights as possible and to provide fair facilities for investment by the less wealthy classes. In view of the reduction which we have recommended in the nominal value of each share we propose that five shares should carry one vote. In allotting the shares assigned to a register the Central Board should therefore in the first instance allot five shares to each qualified applicant who has applied for five or more shares. Of the remaining unallotted shares, shares up to the amount of one-half of the balance should be allotted to applicants for less than five shares. The balance still remaining should be allotted to applicants for more than five shares, the distribution being so made as to secure the widest distribution of voting rights.

In order to avoid any possibility of difficulty for the Directors elected to the Boards of the Reserve Bank to acquire the prescribed number of qualifying shares, we recommend that a sufficient number of shares should be reserved by Government to be available for purchase by the Directors and members of Local Boards at par, and that these purchasers should give an option to Government to repurchase such shares at par when they retire.

We attach great importance to securing that as large a proportion of the population of India as possible shall become shareholders of the Reserve Bank and thereby take an interest in its efficient working. We therefore recommend that the widest publicity should be given to the prospectus of the issue of the Reserve Bank shares and that facilities for applications to investors should be given through Government post offices and treasuries.

*Sub-clause (5).*—We have come to the conclusion that a more equitable distribution of the original capital having regard to the population of the areas concerned be made in the following manner:—

Bombay register—140 lakhs;  
Calcutta register—145 lakhs;  
Delhi register—115 lakhs;  
Madras register—70 lakhs;  
Rangoon register—90 lakhs;

We have suitably amended this sub-clause.

*Sub-clause (6).*—We have split up this sub-clause into a number of sub-clauses. The original arrangement seemed unwieldy.

*Clause 5.*—It was originally provided in the Bill that any additional shares created should be assigned to the various registers in any manner fixed by the Central Board with the previous sanction of the Governor General in Council and that the latter should also determine the manner in which such additional capital should be allotted to the various areas. We have recommended that the distribution should be in the same proportions as fixed for the original share capital.

In view of the liability that would be placed on the Government by any increase in the share capital of the Bank we consider that the previous approval of the Central Legislature should be obtained to any increase in the share capital.

We have also made certain minor consequential amendments in this clause.

*Clause 6.*—It was suggested to us that branches of the Reserve Bank should be opened at Lahore, Cawnpore and Karachi. The principal reason for this suggestion was that the banks and the public at those places would not otherwise get the same facilities as would be available at places where there were offices and branches of the Reserve Bank. We wish to emphasise that at places where it has no branch the Reserve Bank must, through its agencies, provide facilities of the same adequacy as are available at places where it has offices or branches. We do not desire to fetter the discretion of the Reserve Bank in regard to the opening of branches as it should be guided in this matter by practical experience. We, however, recommend that in the Agreement between the Reserve Bank and the Imperial Bank of India it should be made clear that the former is not prevented by that Agreement from opening a branch anywhere if it considers this necessary or desirable.

We considered in this connection whether it would be proper to place a statutory obligation on the Reserve Bank to open a branch in London. We have noted that the present tendency among the Central Banks of the world is not to establish branches outside their own countries but to employ other Central Banks as their agents at foreign centres. While we should be unwilling to make any recommendation which could be construed as a failure to appreciate the importance of international co-operation between the Central Banks of various countries, we cannot accept the view that the practice of other countries affords an exact parallel to the particular case of India as regards representation in London. We therefore think that the Board should have absolute discretion to open a branch in London and we recommend that the provision requiring the prior assent of the Governor General in Council should be deleted.



We recommend that, as in the case of the Imperial Bank, the Head Office of the Bank should be migratory, as we consider that otherwise there might be some risk of failure to secure evenly balanced consideration of the varying interests of different parts of the Indian continent. We have therefore amended the clause to provide that there shall be offices in Bombay, Calcutta, Delhi, Madras and Rangoon and have left it to the discretion of the Central Board how they should move their headquarters between them.

*Clause 7.*—We have made a small drafting amendment to bring out more clearly the intention of this clause.

*Clause 8, sub-clause (1) (a).*—We consider that one of the most vital points affecting the successful operation of the Bank will be the personality and qualifications of the Governor. It is in our view essential that he should be a man who will command the confidence of the public generally and particularly of banking and commercial circles, so that the policy of the Bank which will largely depend on his guidance, may be accepted as authoritative. We do not consider that these conditions will be fulfilled unless he is a man who has established a position in the business world and we have therefore recommended the insertion of a provision in a new sub-clause (a), to cover appointments made both under clause 8 and clause 15, that he must be a man "of tested banking experience covering a period of at least five years". We have given full consideration to the arguments put forward by the Government members who, while not differing from our general appreciation of the position as stated above, have warned us that the actual definition of the qualifications which we have recommended may, on the one hand, prove ineffective for excluding unsuitable appointments, and, on the other hand, prove unduly hampering to the discretion of the appointing authorities and by their very rigidity exclude a man who might be exactly fitted for the post. They have pointed out to us that commercial banking experience is not necessarily an adequate qualification for the head of a Central Bank, and that recent experience of other countries affords many examples of extremely successful appointments of men who would have been excluded by the words of our proviso. While recognising the force of these arguments, we think it necessary definitely to provide in the statute for the exclusion of certain types of appointment which we should consider undesirable, and we are prepared to face the necessity for amending legislation in the event of our words proving in practice to be unduly hampering.

We do not think it necessary to impose any similar restriction on the selection of the Deputy Governor because these appointments will afford a suitable opportunity for giving practical banking experience to men who are otherwise well qualified.

We consider that the responsibilities falling on the chief executive officers of the Bank will be such that it will from the very outset be necessary that there should be two Deputy Governors and we have amended this clause so as to make their appointment obligatory. Many of us wished to add a provision that of the three highest posts thus created (*viz.*, the

Governor and two Deputy Governors) one at least should be an Indian. We have, however, been informed that the official members in charge of the Bill are prepared to give a definite assurance in the Legislature that the Government will take account of our representations and that it will be its policy in making the first appointments and thereafter that at least one of the three shall be a qualified Indian. We are satisfied with this assurance.

We wish to make it clear that we accept the proposals of this clause as regards the appointment of the Governor and Deputy Governors on the understanding that there must be prior consultation between the Governor General in Council and the Central Board before any recommendation is made—in short that the practice hitherto followed in the case of the appointment of the Managing Governors of the Imperial Bank, to which an exactly similar statutory provision has applied, should be observed.

*Sub-clause (1) (b).*—We considered whether any addition should be made to this sub-clause in the form of a direction to the Governor General in Council as to the manner in which he should exercise his power of nomination. We have been assured that it is intended that this power shall be used to ensure that territorial or economic interests which have not secured adequate representation in the elections shall have such inadequacy corrected by this means. We do not consider it appropriate to embody in the statute any specific provision for the fulfilment of this intention, but we consider that in the instrument of instructions to the Governor General a passage should be inserted making it clear that this power should be exercised in the general manner indicated above and in particular to secure adequate representation of the interests of agriculture and co-operative banking if these interests had not secured such representation among the elected directors.

*Sub-clause (2).*—We have made an alteration in the wording here. In view of the Government's interest in the financial earnings of the Bank we consider that it should have a voice in fixing the salaries paid to the chief executive officers.

*Sub-clause (4).*—We recommend that nominated Directors should hold office for five years in the same way as elected Directors. We consider that the provision in its original form might tend to fetter their independence of judgment. We have proposed an amendment for the same purpose in clause 11.

*Clause 9, sub-clause (1) (b).*—We have filled in an obvious lacuna in this sub-clause and in the new proviso which we have added, we have indicated clearly for the guidance of the Central Board, the object with which the power of nominating three members to each local board has been conferred on that body.

*Sub-clause (2).*—We have reduced the value of a voting qualification from two shares of Rs. 500 each to five shares of Rs. 100 each.

We have included a provision for the exercise of shareholders' votes by proxy which is undoubtedly necessary. We have, however, thought it desirable to include certain limitations as to the persons who may hold proxies for this

purpose, and also to introduce words which will make it clear that a shareholder should not be allowed to give a 'general proxy' and that proxies should not be accepted if made out under a general power of attorney.

*Sub-clauses (4) and (4A).*—We consider it essential for the convenience of the shareholders that the Bank should give adequate notice of elections to the local boards and publish a list of shareholders which should be available on purchase. For the latter purpose the Bank must have power to suspend the registration of transfers for a reasonable period preceding the election. We have made amendments to give effect to these purposes.

The other amendments suggested by us in this clause are of a drafting nature only.

*Clause 10, sub-clause (1).*—We have omitted certain words in sub-clause (1) (a) and deleted sub-clause (1) (b) which appeared to us to be unnecessary as the qualifications are sufficiently defined by sub-clause (1) (a).

*Sub-clause (2).*—We have added in this sub-clause certain additional disqualifications taken from the Indian Companies Act which seem to us to be necessary.

We have omitted the proviso to this sub-clause as we considered that the objections to a State official being appointed would be no less than to any other Government official.

*Sub-clause (2A).*—We have proposed the insertion of a new sub-clause on the lines of a similar provision in the Imperial Bank of India Act.

We have also suggested in this clause certain minor amendments of a drafting nature.

*Clause 11, sub-clause (1).*—For the purpose explained in our note on clause 8 (4) we have amended the proviso to this clause so as to place nominated directors on the same footing as elected directors.

*Sub-clause (2).*—We have reduced the value of qualifying shares from Rs. 10,000 to Rs. 5,000. We consider the smaller figure adequate.

We have added a provision at the end of this sub-clause for the vacation of office in the case of continued absence. It is of the highest importance that Directors and Members of Local Boards of the Reserve Bank should be ready to give adequate attention to their responsibilities.

*Sub-clause (3).*—We have altered the wording of this sub-clause so as to make the provision mandatory instead of discretionary. We have also deleted as unnecessary certain words in this sub-clause regulating the period within which directors should be required to acquire the prescribed number of qualifying shares as the addition which we have suggested in new clause 4 (8) should obviate any difficulty.

*Sub-clause (3A).*—We have inserted a new sub-clause (3A); we feel that in the interests of the Bank a provision on these lines is desirable.

*Sub-clause (4).*—We have increased the period within which a member of the Legislature must demit office. To limit this to one month would, in our opinion, present practical difficulties.

*Clause 12, sub-clause (1).*—We think that the initiative in this matter should come from the Central Board. We have amended this sub-clause accordingly.

*Sub-clauses (3) and (4).*—We have rearranged the provisions of these sub-clauses as it did not appear to us that in their original form they provided properly for maintaining at all times the representative nature of the elected members of the Central Board. The effect of our proposals is that a vacancy of an elected member in the Central Board will be filled in the following manner: first an election to fill his vacancy in his Local Board and then an election by the newly completed local board to fill the vacancy in the Central Board. In the case of a vacancy of an elected member of a Local Board who is not also a member of the Central Board we consider that it would suffice for such a vacancy to be filled by co-option until such time as the Local Board is called upon to fulfil its function of electing a member to the Central Board. Before that is done, the co-opted member should be replaced by an elected member.

*Clause 13, sub-clause (1).*—We have made an amendment consequential to our amendment of clause 6.

*Sub-clause (1A).*—We think that provision should be made so as to enable any three Directors to convene a meeting of the Central Board. We have added this new sub-clause accordingly.

We considered whether it was necessary to provide what should be a quorum for a Directors' meeting, but have agreed that this matter should properly be governed by regulations to be made under clause 52.

*Clause 14.*—We have made a consequential amendment corresponding to our amendment of clause 6. We have followed the procedure of the Imperial Bank of India.

*Clause 15, sub-clauses (3) and (4).*—We have redrafted these sub-clauses on lines which we consider to be a distinct improvement on the original draft of these sub-clauses, by providing both for a more even flow of replacement, and for a quicker replacement of nominated by elected directors.

As regards the general purpose of this sub-clause the non-official members of the Committee have made it clear that they would not consider anything less than 75 per cent. of the voting directors as affording a proper representation of Indians. We have received an assurance on behalf of the Government from the Government members of the Committee that the Governor General in Council will exercise his powers so as to ensure the proper representation of Indians on the first Board.

*Clause 17, sub-clause (1).*—We think that it is desirable to make it clear that the Reserve Bank can accept money on deposit from local authorities. We have amended the sub-clause accordingly.

*Sub-clause (2) (a).*—We have added the word "on" to enable the Bank to discount rupee import bills in the event of such instruments coming into existence in the future as contemplated by the Central Banking Enquiry Committee.

*Sub-clause (2) (b).*—We consider that the period of six months is unduly restrictive in the case of agricultural bills and, following the practice in the United States of America, we have raised the period of six to nine months. We have also omitted the proviso in the original clause as being undesirable in the present conditions of India.

*Sub-clause (3).*—We have re-arranged this sub-clause and divided it into three sub-clauses 3 (a), (b) and (c). In sub-clause (3) (a) we have restricted the operations of the Reserve Bank to scheduled banks only, as we do not think the Bank would normally require to transact such business with other persons, while we have separately provided in clause 18 for relaxing the restrictions in this sub-clause on special occasions.

On the other hand in sub-clause 3 (b) we have removed any restrictions on the persons with whom the Bank may deal outside India in sterling bills.

We have altered this sub-clause consistently with the recommendation recorded in our note on clause 2 (d) that operations in foreign currency should be restricted to sterling currency of the United Kingdom.

*Sub-clause (4).*—We consider that in ordinary circumstances dealings under this sub-clause should be restricted to banks, public authorities and Indian States. We have made provision in clause 18 for its extension where this is considered desirable on special occasions.

*Sub-clause (4) (b).*—We have included silver.

*Sub-clause (4) (c).*—We have omitted the proviso for the same reasons which led us to omit the proviso to sub-clause (2) (b) of this clause.

*Sub-clause (4) (d).*—We have omitted this as unnecessary in consequence of the change made in 17 (4) (c).

*Sub-clause (4) (e).*—We have omitted the proviso because we consider that there is little likelihood of the bill habit developing within five years to such an extent as to make it possible to discontinue this practice within that time.

*Sub-clause (5).*—We consider that the provision in its original form might lead to undue latitude. In an extreme case it would be permissible for Government to borrow in this way for a period of fifteen months. We consider that such advances should normally, as soon as possible, be converted into treasury bills which should be offered on the open market even though the Reserve Bank may take them up. We have therefore limited the period to three months. We have enlarged the scope of this clause so as to include advances to such Local Governments as may have the custody and management of their own provincial revenues.

*Sub-clause (6).*—We were informed that bank post bills are not made payable elsewhere than at the office of issue and have amended the sub-clause so as to state the existing practice correctly.

*Sub-clause (7).*—We consider that in view of the limitation of holdings to securities of the British Government [*vide* our note on sub-clause (2) (d)] this provision is unduly restrictive and that the Bank should be empowered to purchase such securities up to a maturity of ten

years. We must make it clear that our intention is that this should be merely an enabling clause, and that in practice the Bank should arrange for its holding of securities to be as liquid as possible.

*Sub-clause (8).*—We consider that the sub-clause as originally drafted was unduly restrictive and would not allow sufficient facilities for open market operations by the Bank. We have therefore modified the amounts in the proviso but wish to make the same point here which we did with reference to sub-clause (7), namely, that these figures are to be regarded as a maximum and that in ordinary circumstances the Bank must keep its security holding as liquid as possible and operate well below these limits. We also consider that, in view of recent flotations by provincial Governments, there is no reason for restricting the maturity of securities of a Local Government to ten years. As regards securities of Local Authorities and of States in India we think it better that instead of limiting these according to their maturity, their eligibility should be subject to the general overriding approval of the Government of India which would enable each particular case to be considered on its merits. We have amended the sub-clause accordingly.

We also wish to provide that where a security is fully guaranteed both as to principal and interest by any authority, it shall be considered for all purposes as the equivalent of a security of such authority.

*Sub-clause (9).*—We have not restricted the operation of this sub-clause to scheduled banks or public authorities because we consider that there might be cases in which such restriction would operate inconveniently in practice. At the same time we wish to make it clear that in our view this power should not be exercised by the Bank so as to compete in its normal business with the commercial business of other banks. It should be the duty of the Government to watch this and to see that the interests of other banks are in practice protected.

*Sub-clause (13).*—We see no reason why this should be restricted to sterling standard countries. It is desirable to promote co-operation between Central Banks, and we therefore consider that the Reserve Bank should be empowered to act as the agent of any Central Bank, and *vice versa*.

*Clause 18.*—We have added words to this clause so as to make it clear that although the exercise of these powers should not necessarily be regarded as limited to occasions of so critical a nature as to justify their description as an emergency, nevertheless they are not to be used for the normal operations of the Bank and should be restricted to special occasions. We have also modified it so as to provide for the delegation of the powers of the Board to a committee of the Board as well as to the Governor. We have further thought it desirable to make it clear that although in order to make quick action possible the Board may delegate its special powers under this section to a committee or to the Governor, nevertheless such delegated powers should not normally be utilised without previous consultation with the Board, and that if in cases of special urgency such previous consultation is impossible, the members of the Board shall be informed at once

so that, if they think fit, they can convene a special meeting to have the policy considered and decided.

We have also made amendments consequential on the limitations which we have suggested in our amendments in sub-clause (3) and sub-clause (4) of clause 17.

*Clause 19, sub-clause (4).*—The word "unsecured" appears to convey very little meaning without qualification and we think that it should be omitted, thus leaving the powers to make loans and advances exclusively regulated by the clauses which give powers in this respect.

*Clauses 20 and 21.*—We think that it should be made clear that the Governor General in Council should have the final power of decision regarding the terms on which these transactions are to be carried out in the unlikely event of a failure to settle them by agreement. We also consider that the Agreement to be entered into with the Reserve Bank, in view of its importance, should be laid on the table of both Houses.

*Clause 21, sub-clause (2).*—We have omitted the words "in India". They appear to us to be unnecessary, because in present circumstances neither the Governor General nor Local Governments can, as such, float loans outside India, and, should they acquire this power in the future, an amendment would be necessary, if these words were retained, to have them removed.

*Clause 22.*—We do not see any need to use the expression "paper money". We also think that the limitation to one year is unduly rigid and might prove inconvenient in practice, while, on the other hand, we cannot see any objection to the Bank being allowed to use Government currency notes until the stocks are exhausted.

*Clause 24.*—We consider that the clause in its original form was unduly rigid and might have proved inconvenient.

*Clause 25.*—We have added a few words so as to make it clear that the primary duty for making proposals as to the form and design of notes rests with the Central Board. We consider that sudden and drastic changes in the design and form of notes should not be made.

*Clause 27.*—There is at present no machinery for the sterilization of notes and it is unlikely that any will be introduced in view of the comparative simplicity of destroying notes and issuing new ones. We have therefore omitted the first part of this clause.

*Clause 28.*—We have retained this clause pending examination by a small committee of official and non-official experts, which should meet as soon as possible, of the whole question of the rules regarding payment on lost, stolen or mutilated or imperfect currency or bank notes. We may add that if our recommendation that the Reserve Bank should offer free remittance facilities to scheduled banks between their branches is accepted, the question of the rules referred to above may lose much of the importance that is now attached to it.

*Clause 30.*—We consider that the remedy proposed in the clause in its original form was inappropriate. If the Bank failed to comply with the requirements of Chapter III or of any other provision of the Act and if, in consequence, it was decided that it should forfeit the right of note issue, it is hardly conceivable that it would command the confidence of the public to such an extent as to be allowed to remain in charge of the other functions entrusted to it by the Act. We therefore consider that in such circumstances a complete reconsideration of the position will be necessary. It is not possible to lay down in advance exactly what steps will be necessary nor do we feel entitled to assume that the liquidation of the Bank will necessarily and inevitably be the only possible course. We therefore think that the right form of provision is one which will give the Government power to make emergency arrangements and lay upon it the duty of consulting the Legislature at the first opportunity, after which further and permanent measures can be settled. We have drafted the clause accordingly.

We think it important to record our view that if a failure by the Bank to fulfil its obligations under the Act is the result of a national emergency or a crisis arising from factors over which the Bank had no control, it would be the duty of the Government to use the resources of the State in maintaining the Bank and tiding over the difficulty.

*Clause 31.*—We have inserted the words "including hundis" after "drafts" in the proviso so as to make the wording of the proviso conform to the wording in the body of the clause.

*Clause 32.*—The powers of a Presidency Magistrate or a Magistrate of the first class to impose fines are limited to a maximum of Rs. 1,000, so that the wording of the clause as it stood was self-contradictory. We have altered it to make the meaning clear.

*Clause 33, sub-clauses (1) and (2).*—As we stated in our note on clause 2, sub-clause (d), we consider that the fiduciary external assets should be limited to securities of the United Kingdom.

*Sub-clause (2).*—Some of us have wished to prescribe (a) for the amount of gold at present held by Government in its currency reserves—namely, about 44½ crores—being retained as a minimum, and (b) for maintaining the gold in the reserves at a minimum percentage of 20 per cent., to the liabilities of the issue department. As against this it has been argued by the Government members (a) that even if it might be thought right as a matter of policy, at least in present circumstances, not to part with any of the present stocks of gold, nevertheless a statutory prohibition against dealing in any way with any of the gold may prove unduly hampering on the Bank and so weaken its power to defend the position in case of need that in practice the limitation might prove to be not an added safeguard for the preservation of the reserves but an actual source of weakness, (b) that any percentage provision is in present circumstances entirely unsuitable, for it might force the Bank actually to buy gold at times when such a purchase would involve in any case a heavy book loss (owing to the fact that gold has according to the accepted provisions of this

Bill to be valued at a price which is about 33 per cent. below its present market value) and possibly an ultimate real loss. Those of us who have supported the former views are prepared to accept a compromise in the form of increasing the minimum to 40 crores and this the Government members have stated that they are prepared to accept as part of a general plan which is in other respects satisfactory.

*Sub-clause (3).*—We have omitted the words "drawn and" as a consequential amendment to the amendment which we have suggested in 17 (3) (a). We also consider that the limitation of rupee securities might prove unduly restrictive. We have therefore altered the word "less" to "greater" and have made additional provision for a further 10 crores with the permission of the Governor General in Council.

*Sub-clause (6).*—We have omitted sterling securities of the Government of India. We do not consider that these are assets which could properly form part of the external reserves, and there is no need even for their temporary inclusion.

*Clause 35.*—We have added a proviso to make it clear that at the time of transfer the whole of the gold coin and bullion held by the Governor General in Council in his reserves should be transferred to the Bank.

*Clause 36.*—As a result of the provisions of this clause which differ from those of the earlier Reserve Bank Bills, the Government will be left in possession of a large part of the stocks of silver bullion and rupees which it now holds. The policy of disposing of such silver and the methods of accounting for its proceeds involve important issues which the Legislature should be given an opportunity to consider. We have dealt with this question in the final paragraph to this Report.

*Sub-clause (1).*—We have altered 1/10th to 1/6th because we consider that, particularly in view of the obligations which we are putting on the Bank in clause 39 to make its notes fully convertible into silver rupees, a proportion of 1/10th is too low.

*Sub-clause (2).*—For the same reason we have altered "may" in sub-clause (2) to "shall".

We have also substituted the words "securities of the British Government" for "securities of sterling standard countries" consistently with our proposals under clause 33.

*Clause 37.*—The small amendment in this clause is consequential.

We have added a proviso to ensure that the minimum gold holding specified in clause 33 (2) shall in any case be retained as the last reserve. We consider that if the currency reserves had to be drawn upon so heavily that they were reduced to 40 crores a situation would have been created which would in any case require reconsideration of the whole position. In that event we think it of the greatest importance that the Bank should possess at least this minimum holding of gold

as a nucleus of reserves with which to maintain the currency position on the new basis which might be settled after such reconsideration. It is because we consider that a stock of gold will in such circumstances be the most valuable nucleus that we think this minimum should be preserved in the shape of gold rather than in sterling securities. In making this recommendation we do not imply that a provision of this nature, earmarking a certain portion of the currency reserves for special treatment, is necessarily suitable as a permanent provision, and we recognise that it may have to be reconsidered when the occasion contemplated in the preamble to the Bill arises and it is possible to frame measures for establishing the Indian monetary standard on a permanent basis.

*Clause 38.*—We have omitted the word "new" which seems irrelevant in this context.

*Clause 39.*—We consider it essential that provision should be made to ensure the legal convertibility of the notes of the Reserve Bank into silver rupees. Even though on theoretical grounds such a provision might seem undesirable, we feel that it is much more important to ensure that confidence in the notes of the new institution will not be endangered.

It is, in our view, implicit in this clause that the Bank will create sufficient branches, offices and agencies throughout the country to enable it to fulfil its obligations to supply different forms of currency so as to meet the reasonable needs of the public.

*Clauses 40 and 41.*—In accepting the provisions of these clauses we have read them together with the preamble and have accepted the conclusions of the London Committee which we think it advisable to restate:—

"In the prevalent state of monetary disorganisation throughout the world, it is impossible to incorporate in the Bill provisions which would necessarily be suitable when monetary systems generally have been recast and stabilised. In these circumstances we consider that the only sound course for India is to remain on the sterling standard. On this basis the exchange obligations incorporated in the Bill must necessarily be in accord with the rupee-sterling ratio existing at the time when the Bill is introduced. This statement does not, however, imply any expression of opinion on the part of the Committee on the merits or demerits of the present ratio. The ratio provisions in the Bill are designed to make it clear that there will not be any change in the *de facto* situation by the mere coming into operation of the Reserve Bank Act."

The Government members have made it clear to us that their intention in introducing this Bill is merely to create the machinery of a Central Bank and not to ask for any special confirmation from the Legislature of the present ratio. We are prepared to accept the view therefore that the ratio issue does not arise in the present Bill.

*Clause 41.*—We have added the second proviso with a view to protect the interests of the Bank.

*Clause 42.*—This is a wide and very difficult clause as it covers entirely new ground and the conditions in India are so diverse that its provisions must be regarded as tentative and may have to be modified by legislation after practical experience has been gained. We have had particularly in mind a certain modification in the form of an extension of the scope of this clause and for this reason have added a new clause 49A making it incumbent on the Bank to submit proposals for legislation with particular reference to the conditions of indigenous banking.

Apart from this, we consider that the clause in its original form would have been likely to prove unduly rigid in its operation; and in particular that to calculate the average holdings of the scheduled banks from monthly returns might have involved the imposition of penalties in an inequitable manner. We have therefore substituted weekly returns based on the actual figures of a particular working day. We discussed the percentages of  $7\frac{1}{2}$  and  $2\frac{1}{2}$  with the banking experts. They thought that those proportions were too high but agreed that 5 and 2 would be practicable. We agree and have reduced the proportions accordingly. We further recommend the exclusion of certain liabilities of a more or less technical character from the liabilities on which the minimum deposit has to be calculated. In addition we consider that loans from the Reserve Bank should be excluded from the liabilities as calculated.

In sub-clause (7) we have come to the conclusion that the limit of 3 lakhs is too low and might result in the inclusion of petty firms which do not really fall within the intention of the section. We have therefore increased 3 lakhs to 5 lakhs. We considered whether it would be possible to include together with capital and reserve the amount of deposits as a criterion but came to the conclusion that they are so variable that this would be impracticable. In our view any alteration on these lines must be considered in the light of practical experience. We also consider that when the question of the inclusion of companies is being considered, special care should be taken that companies are not included which are not performing what is really banking business. This should not be difficult for the Bank to decide with reference to each particular case, though it is difficult to draft a general definition of what is banking business and we have not attempted to do so. It may later be found, as a result of practical experience, possible to incorporate such a definition in the statute. We have made consequential amendments in the Second Schedule but we would emphasise the fact that the Schedule is merely illustrative and that it has been compiled on admittedly inadequate material. After the passing of the Bill early intimation should be sent to the companies included in it or to any others the inclusion of which would seem to be indicated by later statistical returns so as to give them ample time to show cause if they consider that they should not be included.

In connection with this clause we have also considered several representations made by banks and other parties. One is that the repayment of these compulsory deposits should be guaranteed by Government. We are not

prepared to recommend such a provision. It was also suggested that savings bank deposits should be reckoned as time liabilities for the purpose of the calculations in sub-clause (1). We consider that the terms on which savings banks are run by various banks vary so widely that it would be impossible to frame any general rule.

In view of the fact that the Reserve Bank will only have a few offices of its own, it will obviously be necessary for the scheduled banks to keep accounts with the Reserve Bank at branches of the Imperial Bank as agents for the Reserve Bank. Balances held on such accounts will of course be taken into account in calculating the amount of any scheduled banks' deposits with the Reserve Bank.

*Sub-clause (4).*—We are informed that it may be difficult for banks in certain parts of the country which have branches in the interior having no easy communication with their head offices to submit the returns prescribed in this clause within the allotted time. We have provided that in such cases the Reserve Bank should have power to extend the period for the submission of the returns.

*Clause 42A.*—We consider that a consolidated statement based on the returns collected under clause 42 should be published on the ground that they should be of interest and value to the public. Though the returns of individual banks must obviously be regarded as highly confidential, this consideration does not apply to statistical returns compiled from them all.

To make the returns more complete for statistical purposes we consider that the Government should also furnish the Bank periodically with figures of the amounts of rupee coin, subsidiary coin and notes held at treasuries and sub-treasuries.

*Clause 43B.*—We considered whether provincial co-operative banks should be included in the Schedule, but came to the conclusion that though there may be considerable advantages in such a course, the time is not yet ripe for it. We consider, however, that if co-operative banks are to be given the facilities indicated in clause 17, they should submit the same returns as those prescribed for scheduled banks so as to enable the Reserve Bank to see that they are maintaining a satisfactory position.

*Clause 43 and the Third Schedule.*—We have given very careful consideration, after discussion with the representatives of the Imperial Bank and other bankers, to the various issues involved in the Agreement to be entered into between the Reserve Bank and the Imperial Bank of India. We think it necessary to record our views under the following three main headings:—

(a) *Remuneration for handling Government Account.*—On the basis of the figures supplied to us we have reached the conclusion that the terms suggested are reasonable and represent no more than is necessary barely to cover the actual cost incurred by the Imperial Bank in performing these services. We are assured by the Government representatives that these figures



were based on detailed and audited statements supplied by the Imperial Bank and accepted by the Finance Department after careful examination of the method of distribution of over-head charges. We think, however, that it would be satisfactory to the Legislature that the basis on which the costs have been calculated should be independently examined by the Auditor General and that a report by him should be presented by the Government when these provisions of the Bill are under discussion indicating whether in his view the basis on which the costs have been calculated is reasonable and the results of the calculations correct.

(b) *Compensation for the keeping open of branches.*—We consider that the method proposed in the Schedule of keeping specified minimum balances with these branches either free of interest or at concessional rates is not a satisfactory method for fixing compensation under this head, for the value of such balances must vary greatly according to the rates obtainable for the use of money. It appears to us much more satisfactory that a definite annual payment should be made, based on the losses actually incurred. At the same time it would not be justifiable to settle this compensation for a long period on the basis of present results because it must be anticipated that with the general development of banking in India these branches will become progressively more remunerative. We therefore propose a diminishing scale leading to a termination of all compensation after 15 years. We consider that the figures proposed are reasonable on the basis of the statements supplied to us as to the actual cost of maintaining these branches but in this case also we recommend that an independent check on the calculations should be made by the Auditor General and included in the report already referred to.

(c) *Period of agreement.*—We have taken into account the fact that as the compensation for maintaining the unremunerative branches would terminate after 15 years, there would be some advantage to the public in continuing the Agreement beyond 15 years so as to prolong the period during which the Imperial Bank remains under an obligation not to close any of these branches. On the other hand, we consider, first, that a period of 25 years is in any case too long for a commitment of this important nature and, secondly, that inasmuch as the commission payable for handling Government Account is intended to be based on the actual cost of the services rendered, the rate of commission should be open to recalculation at a comparatively early date. Taking all the foregoing considerations into account, we recommend that the Agreement should run for 15 years subject to termination on 5 years' notice given at any time after that period, and that the commission payable for handling the Government Account should be reviewed at the end of ten years and thereafter at five-yearly intervals. It should be made clear that the object of such review would be to settle the actual cost to the Imperial Bank, that the commission should be settled on this basis, and that the calculations shall be subject to expert accounting investigation. In the event of any difference of opinion as to terms arising between the Reserve Bank and the Imperial Bank, we recommend that power to settle the terms finally should be vested in the Governor General in Council.

In view of all the arrangements as regards staff, etc., involved we consider that a period of five years for notice of termination is no more than reasonable.

Lastly, there is one important point which should be made clear in this agreement, namely, that it should not in any way preclude the Reserve Bank from opening its own offices or branches at any place where the Central Board may, as a result of experience, find this to be expedient in the interests of the public notwithstanding the fact that the Imperial Bank has up to then acted as its agent at such places.

*Clause 43A and Clause 44 (included in Chapter IV).*—We think that the provision in clause 44 for the building up of a Reserve Fund would throw an unnecessarily heavy initial burden on central revenues. At the same time we consider it highly desirable that an adequate Reserve Fund should be available to the Bank in its early years, the main purpose of such a Reserve Fund being to provide a margin against possible depreciation in securities held either in the Issue or Banking departments of the Bank. After careful consideration we have come to the conclusion that the most satisfactory solution would be for Government to start the Bank with the full reserve proposed in the Bill by making over to it the sum of 5 crores in short-dated Government securities—probably treasury bills.

The arrangements for distribution of profits should then provide that this Reserve Fund will always be maintained at the figure of 5 crores.

This change does not involve any substantial recasting of the provisions of the original Bill, all that is necessary being to omit that part of the provisions which covered the period until the reserve had been built up to 5 crores. We have amended the clause accordingly and also included a provision for the initial transfer of the 5 crore Fund by Government, so that this transaction may be covered by a vote of the Legislature.

*Clause (44A).*—We consider it desirable to make provision for the exemption of the profits of the Bank from income-tax and company super-tax, while at the same time providing that the shareholders will have to pay income-tax on the dividends which they actually receive.

*Clause 45.*—We think it is desirable that the Bank should have power to discount agricultural bills at concessional rates which may be below the rate for the purchase or rediscount of commercial paper. We have therefore altered the words "minimum rate" in this clause to "standard rate".

*Clause 47.*—We think that the Governor General in Council should also have discretion to appoint the Auditor General as auditor under this clause if he so desires. We have amended the clause accordingly.

*Clause 49.*—We have provided that the annual accounts transmitted to the Governor General in Council by the Reserve Bank should be accompanied by a copy of the Directors' report on those accounts.

*Clause (49A).*—Though we consider it important that a start should be made on the lines indicated in clause 42, we recognise that the developments at this stage must be tentative. We therefore consider it important that a statutory provision should be included, making it incumbent on the Bank to report at the earliest practicable date and in any case within three years and, if necessary, to prepare proposals for legislation so as to include indigenous bankers and other parties doing banking business in India who are not at present included in the Schedule within its scope subject to such restrictions as the Board may consider necessary. In this report it should also include proposals for the closer linking of agricultural enterprise with the machinery of the Reserve Bank, possibly by the establishment of a separate rural credit department.

We also think that in this clause it would be desirable to include a provision embodying in a more concrete form the principle recognized in the preamble, by placing a definite obligation on the Board to put up proposals for a more permanent currency system for India when they consider that the pre-requisites indicated in the preamble have been fulfilled, that is to say, the international monetary position has become sufficiently clear and stable.

*Clause 50, sub-clause (5).*—We have added this sub-clause to fill up a lacuna in the clause as originally drafted.

*Clause 51.*—Some of us are of opinion that the Governor General in Council should have power to purchase the shares of the Bank at the end of 25 years if in the interests of the country it is then considered desirable to run the institution as a State Bank.

*Clause 51, sub-clause (1).*—This sub-clause as originally drafted left it doubtful in whom the power to initiate liquidation proceedings was vested.

*Sub-clause (2).*—We have added a proviso to limit the amount of the surplus assets which would go to the shareholders in the event of liquidation of the Bank in the early years. We consider that, without some limitation of this nature, the shareholders might, particularly as a result of the proposals mentioned in the note on clause 44 for starting the Bank off with a Reserve Fund of 5 crores, be placed in an unduly favourable position in the event of early liquidation of the Bank. Unlikely though that contingency may be, we have thought it necessary to provide for it. It will be noted that according to the original proposals in the Bill the shareholders would have been entitled to receive 25 per cent. of the 'surplus assets' on liquidation, and as according to the proposals for distribution of profits these surplus assets could hardly have exceeded the maximum amount of the Reserve Fund, namely, the amount of the share capital of the Bank, the shareholders would under the original proposals also have had no expectation of a higher profit on liquidation than 25 per cent; and this position would only have been attained after several years of working.

*Clause 52, sub-clause (2) (mm).*—We have added the power to make regulations regarding the fees to be paid to Directors and to members of the Local Boards.

*Sub-clause (2) (mmm).*—We think it desirable to make special provision for regulations regarding the relations of scheduled banks with the Reserve Bank. In particular, it may be found necessary or desirable for the Reserve Bank to call for further information from them.

*Sub-clause (2) (mmmm).*—Though the management of clearing houses is one of the usual functions of a Reserve Bank, we think that it would be as well to make specific provision for the regulations which the Bank will issue in this matter.

*Sub-clause (3).*—We have added this sub-clause to make it clear that copies of any such regulations will be available to the public on payment.

4. The Government put before us a memorandum† which we have attached to this Report containing their proposals for dealing with three important matters which were recommended for further consideration in India by the Committee which considered the Reserve Bank proposals in London. These matters are:—

- (1) The method for dealing with the surplus stock of rupees which are at present held in the Government's currency reserves, but which will under the plan embodied in the present Bill be retained by Government.
- (2) The amount of external reserves which should be handed over by Government initially on the formation of the Bank.
- (3) The method for dealing with any profit or loss which may result from a revaluation or a sale of the stocks of gold to be handed over to the Bank by Government.

The first of these questions arises as a result of the general plan embodied in clause 36 of the Bill—the effect of which is that, contrary to the plan embodied in the earlier Bills, Government will retain the responsibility in connection with the silver coinage so that the Bank will not have to carry stocks of silver coin surplus to its own requirements, or be concerned with sales or purchases of silver bullion or any loss which such transactions may involve. While we are prepared to state that we approve of this general plan, we have not had time fully to consider the details of the Government's proposals as regards the methods for dealing with the stocks of silver to be retained by Government nor as regards the matters arising under the other two heads. In the circumstances, as we are bound to present our report on the Reserve Bank Bill by November 20 and shall by that act have completed the function laid upon us by the Legislature in this matter, we can only recommend that the details of the Government proposals should be further studied by the Legislature by such means as it thinks fit.



5. The Bill was published in the Gazette of India dated the 16th September, 1938. 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.

\*GEORGE SCHUSTER,  
 \*COWASJI JEHangIR.  
 \*SANT SINGH  
 MOHD. YAMIN KHAN.  
 HOMI MEHTA.  
 L. HUDSON.  
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 S. R. PANDIT.  
 \*S. R. M. ANNAMALAI CHETTY.  
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 \*MAHMOOD SUHRAWARDY.  
 CHARANJIT SINGH.  
 MOHD. HAYAT NOON.  
 \*B. K. BASU.  
 \*NRIPENDRANARAYAN SINHA.  
 \*MATHURA PRASAD MEHROTRA.  
 \*S. C. MITRA.  
 \*BHUPUT SINGH,  
 ABDULLA-AL-MAMUN SUHRAWARDY  
 \*MOHD. AZHAR ALI.  
 \*GAYA PRASAD SINGH  
 \*HOSSAIN IMAM.  
 NIHAL SINGH.  
 \*RAM SARAN DAS.  
 \*VIDYA SAGAR PANDYA  
 \*B. DAS,  
 \*J. B. TAYLOR.

## APPENDIX A.

MEMORANDUM BY THE GOVERNMENT REGARDING  
DISPOSAL OF SURPLUS SILVER.

In paragraph 21 of the report of the London Committee on Indian Reserve Bank legislation they made certain recommendations regarding the transfer of rupee coin between Government and the Bank which have been embodied in clause 36 of the Reserve Bank of India Bill, 1932, and as regards certain matters arising out of these recommendations the Committee proposed that they should be further examined in India.

(a) Heading (2) of the arrangement recommended was as follows:

"Any surplus of rupees which this arrangement would enable Government to remove from the reserve should be held by Government in a separate account, the silver being held as bullion, not as coin. *Subject to further consideration by the Government of India* any proceeds from the realisation of such rupees should not be used, except for the purpose specified in (3) below."

The purpose thus specified was the "payment of full value" (40 per cent. in external assets) for any further surplus rupees transferred by the Bank to the Government.

(b) The concluding recommendation of paragraph 21 was as follows:—

"We do not propose any alteration in the figure (of external reserves) in the new Bill, but we think that this proportion may not necessarily be adequate and we recommend that the question whether a higher proportion is required at the outset should, before the Bank is set up, be carefully considered by Government in the light of all the prevailing circumstances."

2. In paragraph 25 of their Report they also remarked:

"The possibility would obviously be present that the Bank might gain a large premium on the gold handed over to it by Government. The question as to how such premium should be dealt with, specially in the event of sales being made in the intermediate period pending revaluation of the gold, raises complex practical issues which we have not fully discussed. In principle such profits should belong rather to the Government than to the Bank, but our view is that this unrealised margin should in some way or other be kept available for strengthening the position of the currency reserves. *We recommend that detailed proposals should be worked out by the Government of India for consideration during the passage of legislation on this subject.*"

3. The points thus referred for further examination raise two problems which are closely connected and which, in the opinion of the Government of India, should be treated together.

The following appear to be the main considerations which should be taken into account:

(a) The proceeds of any sales of the surplus silver (to be retained by the Government under the arrangement proposed) and of any surplus realised on the sale or revaluation of the gold (to be transferred to the Bank) would represent assets originally accumulated against the issue of currency and as part of the ordinary currency business of Government. Such assets should therefore be regarded as primarily earmarked for currency purposes.

(b) It does not however necessarily follow that such assets should be directly or immediately absorbed in the currency reserves of the Bank, because—

- (i) The Government must retain a separate reserve against the liability imposed upon it to pay full value for further surplus rupees which it may be required to take over from the Bank under the proviso to sub-clause (1) of clause 36 [cf. also the recommendation of the London Committee referred to above in paragraph 1 (a)].
- (ii) Reasonable account must be taken of the general financial position of the Government which may react on the currency position. Looking at the matter from a practical point of view, it may not be good policy to accumulate excessive funds in specially earmarked reserves, because in the first place this may involve a substantial loss of interest seeing that in normal circumstances it will only be possible to earn a much lower rate of interest on such funds than the Government has to pay on its own public debt, and, in the second place, the general effect on India's credit of repaying outstanding loans may be of greater value than adding to the accumulated reserves (cf. as an actual example in the past the repayment by the Government of India from its own resources of the £15,000,000 sterling loan in January, 1932).
- (iii) If the Bank is started off initially with reserves in gold and sterling assets which afford amply adequate cover against its issue liabilities, the addition from outside of still further external assets would serve no useful purpose and might even put the Bank into a position of being able with undue ease to expand the currency against rupee assets when that was not justified.

4. The Government of India have carefully weighed the above considerations and I am directed to place the following scheme before the Committee for its consideration:—

(a) The silver which will be retained by Government, whether in rupee coin or bullion, should be regarded as stock purchased by Government from its Currency Department. On

the basis of the accounts of the Currency Department on the 31st August, 1933 (at which date the silver stocks attained the maximum point reached during the current year) Government after handing over 50 crores of rupees to the Bank would retain rupees and silver of a nominal value of 55.41 lakhs. Against this 55.41 lakhs would be set off the value of the assets of the Gold Standard Reserve, 53.88 lakhs, so that the net debt against the silver thus retained by the Government would be the difference between these two figures, namely, 2.08 lakhs.

(b) The proceeds of any sales of silver after the transfer would be credited to a separate fund more or less on the lines of the present Gold Standard Reserve which it is suggested might be called the "Silver Redemption Reserve". This reserve would be invested by Government in its entirety in gold or sterling securities.

(c) The book loss on sales of silver since the commencement of selling operations is approximately 31.63 lakhs\*, and this figure must also together with the 2.08 lakhs mentioned under (a) be regarded as a debt incurred against silver. To this debt will also have to be added the full nominal value of any silver rupees returned by the Bank under clause 36(1) of the Bill, while the full nominal value of any rupees sold to the Bank under clause 36(2) will be deducted from it. The loss of 31.63 lakhs already incurred is at present held in a suspense account and it will continue to be so treated. Interest and amortisation provisions against the debt represented by this loss and the 2.08 lakhs balance of silver to be taken over together with any further silver which may be taken over will be made in the manner described in the following paragraphs.

(d) Interest on the outstanding loss which is in fact represented by a corresponding portion of the public debt (namely, treasury bills in the Paper Currency Reserve) is at present met out of the revenues of the Government of India. This should continue both for the outstanding loss and any other additions to the silver debt referred to above, but the Government of India should be allowed to set off the interest which it receives from the investments in the Silver Redemption Reserve. In other words, the interest on this Reserve will not be added to the Reserve but will, as at present, accrue as a receipt to Government revenues.

(e) Provision will also have to be made for the amortisation of the outstanding "silver debt". At present no provision is made for the amortisation of treasury bills held in the Paper Currency Reserve so that in practice there is no amortisation provision for the debt representing losses on account of silver. The Government of India consider that some provision should be made but any plan for this must be dealt with as part of the Government's general plan for

\*This is not really in the true sense a loss. It is the figure which represents the difference between the price of the silver sold as bullion and the face value of the rupees from which the silver was produced. In order to get a true picture of the position there must be balanced against this nominal loss the profits which the Government originally made when the rupees were put into circulation, from which profits *inter alia*, the £40 millions Gold Standard Reserve was built up.

Sinking Fund provisions on the public debt—a question which must be dealt with separately.

5. It remains to consider how the funds which would accumulate in the Silver Redemption Reserve should be utilised. The considerations affecting this question have been set out in paragraph 3 above. Weighing up the various considerations, the Government of India consider that it would be a reasonable arrangement to allow the Silver Redemption Reserve to accumulate until it reached a total of 10 crores. Any further receipts should not be separately invested but should be taken direct into Treasury balances to reduce the outstanding "silver debt" described in paragraph 4(c) *i.e.*, to be utilised for the reduction of debt either by the redemption of existing debt or the avoidance of new borrowing. A Reserve of 10 crores in external assets would allow for a return of 25 crores of rupees by the Bank to Government, that is to say the maximum amount which could be returned in five years. This should be adequate for all practical purposes and against locking up funds beyond this reasonable margin must be weighed the consideration mentioned in paragraph 3 (b)(ii) above.

6. As regards the second recommendation of the London Committee [paragraph 1(b)] of this Memorandum, the Government of India do not consider that it would be practicable at present to decide whether and, if so, to what extent the Bank should be provided with external cover in addition to the 50 per cent. indicated in clause 35 of the Bill. It is of course understood that the whole of the Government's gold holding will in any case be handed over. Apart from this, if there should be any margin of other external assets which the Government at the time when the Bank is set up did not consider it necessary to hand over to the Bank and which it would consequently retain for its own purposes, the Government of India provisionally consider that the most suitable alternative method for appropriating any such surplus would be to transfer it as an opening balance to the Silver Redemption Reserve proposed above.

7. As regards the third point in paragraph 25 of the London Report (*vide* paragraph 2 of this Memorandum), the Government of India do not consider it necessary to make any specific proposals regarding the utilisation of any hypothetical profits on the revaluation of gold. Such profits might arise in two ways:

(a) There might be sales, in which case there might be a considerable premium representing the difference between the market price and the statutory price as indicated in clause 38(4) of the Bill.

(b) When the time comes to adopt a permanent currency standard as contemplated in the preamble to the Reserve Bank Bill, the new valuation as compared with the valuation at the old parity as adopted in clause 38(4) might be such as to show either a paper gain or loss.

8. As regards alternative (a), sales are very unlikely and unless they were for a very large amount, the profit on them would not be sufficient to alter the dividend payable to the shareholders, in which case the whole of the profit

on such sales would accrue to Government under clause 44. The Government of India do not consider it necessary to legislate for this highly hypothetical contingency.

9. As regards alternative (b), if there was a revaluation, clause 33 (4) of the Bill would require amendment, in which case it would be open to the Legislature to make a further amendment of the Bill so as to ensure that the whole of the profits or losses on such revaluation would accrue to or be borne by Government. If there were profits, the actual manner in which any such hypothetical profits would be utilised is a still more hypothetical question on which it appears to the Government of India to be even less necessary to formulate any specific scheme. It is obvious that any such paper gain should not be swallowed up in ordinary revenues but

should be devoted to some currency purpose and this most probably would take the form of an additional fortification of the Silver Redemption Reserve. That, however, is a matter which could be left to be decided at the time.

10. The Government of India therefore do not consider that any provision need be made in the present Bill with respect to these recommendations of the London Committee, but they would suggest that a note might be made in the report, possibly on clause 33(4), on the lines indicated in the preceding paragraph, regarding the utilisation of any book gain or loss on gold, while they would also be glad to have the views of the Committee on the scheme for a Silver Redemption Fund set out in paragraphs 4 and 5 of this Memorandum.

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## MINUTES OF DISSENT.

I am unable to agree with the Joint Committee in the conclusions they have arrived at on clauses 40 and 41. I do not propose to go into the question of the ratio on its merits. It would be futile to do so, since the Act cannot come into force for a considerable period of time after the Bill is passed by the Legislature. In these difficult times he would be a bold man who would attempt to prophesy what will happen in the world even in a few weeks time. How is it then possible to fix to-day what the ratio should be about a year hence? Many of us have decided views as to what the ratio should be fixed at to-day, but we are not dealing in this Bill with the situation of the immediate present. This is the spirit in which the London Committee dealt with the question, which is clearly shown by the following sentence:—

“The ratio provisions in the Bill are designed to make it clear that there will not be any change in the *de facto* situation by the mere coming into operation of the Reserve Bank Act”.

Do the majority of the Joint Committee want us to believe that the 1s. 6d. ratio is likely to be the *de facto* situation when the Act comes into operation? In the opinion of many well-fitted to judge, there are just as many, if not more, chances of the ratio having to be changed. The retaining in the Bill of 1s. 6d. ratio under present circumstances is in my opinion not carrying out in the spirit the London agreement. I suggest that the rate should be the *de jure* rate of the day before this Act comes into force.

In clause 43 I suggest that the period of the agreement with the Imperial Bank should be ten years subject to termination on five years' notice given at any time after that period. This will give the Imperial Bank an agreement for fifteen years certain.

COWASJI JEHangIR (JR.).

16th November, 1933.

We have signed the Report.

We however regret to note (1) that Madras has been assigned shares to the value of only 70 lakhs and (2) that Madras is to have only one Director on the Central Board. As one of the major Presidencies it is entitled to be provided with more capital and to have two Directors.

S. R. M. ANNAMALAI CHETTY.

G. NARAYANASWAMI CHETTY.

S. M. PADSHAH.

16th November, 1933.

*Clause 8 (1)(a).*—We find it necessary to dissent from the proposal that it shall be provided in the Act that the Governor of the Reserve Bank must be a man of ‘tested banking experience covering a period of at least five years’. While we fully endorse what has been said in the main report as to the importance of the Governor being a man who can command the confidence of the business community in India, we feel that the qualifications proposed as actually worded will not necessarily ensure this result and may prove extremely embarrassing in practice. The qualifications and experience required for the head of a Central Bank are quite different from those which are necessarily acquired in commercial banking, while if experience of the latter is the only qualification, a five year period would be quite inadequate. The experience of many countries goes to show that men of quite different training have been selected for and proved successful in central banking, and the present heads of the important Central Banks would have been excluded as ineligible under the qualifications proposed by the Committee.

*Clause 33(2) and clause 37.*—The recommendations made in the main report and embodied in these clauses as regards the holding of gold in the currency reserves are based on the ideas that gold at present forms the most reliable form of currency reserves, and, that practically the whole of the present stock of gold held by Government ought to be preserved and not dissipated in defending the present sterling standard. While we feel that such ideas have force, and while we recognise the strength of Indian sentiment in this matter, we consider that, so far as statutory provisions are concerned, these should not be so framed as to hamper the discretion of the Bank to utilise its currency reserves in whatever manner may be most effective for maintaining the stability of the currency. In exercising this discretion it would of course be right for the Bank to take account of Indian sentiment, for any disregard of that might react on public confidence the maintenance of which is a vital factor in the security of the position—a factor of perhaps even greater importance than the actual currency reserves. But it is quite a different matter to convert the recognition of these points into a statutory limitation on the Bank's powers. The mere possession of powers even if they may always be kept in reserve is a strengthening factor, and the mere denial of such powers may be a weakening factor. We are prepared, as stated in the main report, to agree to the minimum gold holding being raised to 40 crores as a compromise if thereby agreement can be obtained to a general plan for the constitution of the Bank which is in other respects satisfactory. But we should not, except for this purpose, be prepared to accept this figure which we consider to be an undue limitation on the Bank's discretion, and we must record our dissent from any proposals to go further than this by provisions in clause 37.

GEORGE SCHUSTER.

J. B. TAYLOR.

We, the undersigned Members of the Joint Committee to which the Reserve Bank of India Bill of 1933, was referred, have considered the Bill and the Report, and wish to append the following minute of dissent on the points on which we are agreed, while reserving ourselves to append individual notes on other points.

*The proposed Bank should be a State Bank.*

During the discussion of the Reserve Bank Bill in 1927-28, the Assembly accepted the principle of a State Bank by passing unanimously section 4 of the Joint Select Committee Bill. This question was again discussed in 1931 by the Central Banking Enquiry Committee; and it also recommended unanimously that the Bank should be a State Bank. (Pages 418-419 of the Report). It is now incumbent on the Government to give a convincing reason for going against the unanimous decision of the Assembly and unanimous recommendation of the Banking Enquiry Committee. It is regrettable that even such of those members of the London Committee as were associated either with the Joint Select Committee of 1927, or the Central Banking Enquiry Committee and were thus committed to a State Bank have not chosen to enlighten the public as to the exact reasons for their present preference for a Shareholders Bank. The country was entitled to expect a clear lead from them. In the absence of such a lead, we find that the new proposal is being placed without the supporters of the Shareholders Bank discharging the onus of proof that lies on them for going against a scheme unanimously approved by the Legislature and strongly supported by all sections of Indian public opinion.

The only two arguments which the Government can advance for changing the unanimous finding are—

- (1) A Shareholders Bank is the only form of bank which will provide Directors from an electorate free from political influence.
- (2) In most countries of the world, Central Banks are Shareholders Bank.

We would like to examine closely both these arguments. The experience about the election of Directorate of Companies clearly shows that shareholders as an electorate do not exercise any material influence. The Directors manage to get themselves re-elected. In fact, they form a coterie and keep perpetual power in their own hands. The coterie is formed by the promoters who nominate the first Directors.

"The Directors practically exercise the right of appointing other Directors and they get their action confirmed or passed by the annual general meeting." This was verified by Sir Osborne-Smith in the following question and answer\* with regard to the Imperial Bank:

Q. Do you know of any occasion on which anybody has been elected in a general

\* Footnote by the Honourable Sir George Schuster (Chairman).

The discussions were informal conversations which were only loosely recorded, and circulated in order to refresh the memory of members. They have not been checked by those who took part in the discussions and cannot be regarded as accurate records.

GEORGE SCHUSTER.

meeting of a Director without the back-door influence of nomination first by the Directors?

A. I have no recollection of it.

Secondly, the Reserve Bank deals with problems which cannot be fully dissociated from politics and it is impossible to remove political considerations. The Bill itself does not attempt to remove the political influence of the Secretary of State. The Bill really denies the influence of Indian politicians and affirms the influence of the Secretary of State. The Secretary of State represents politics just as much as the future Indian Minister; and hence the substitution of one for the other does not secure the freedom from political influence, which is claimed by the Government. In either case the Secretary of State will have determining voice, but in case of Shareholders Bank, he will be immune from the criticisms of the Indian public and of legislature.

As regards the second argument, there are several countries in the world, notably Australia and Sweden, whose Central Banks are State Banks. During the recent economic perturbances the Governments of many countries were forced to assume greater responsibilities in the currency policies of their countries; and the position of the world is such that no one can safely predict the future trend of monetary policy and the working of the Central Banks. In fact, the theory of Central Banks is in the melting pot; and the other countries may have to follow America in the Government taking active and effective part in the control of their monetary policy. Consequently, the argument in regard to the example of other countries has not much force until the conditions of the world are settled down and we know the nature and significance of the profound changes that are taking place. Even in England, the Conservative Government are finding it necessary to effect changes in the administration of the Bank of England with a view to allow greater voice for the Treasury.

We now put forward the following considerations as positive and definite arguments in favour of a State Bank:—

- (1) It is an admitted fact that the Government is compelled to assume almost entire responsibility in the administration of Central Banks at the time of financial crisis. The Central Bank functions smoothly only during normal times; for normal working, shareholders are as much unnecessary as the State. It is the Governor of the Bank that counts.
- (2) The State Bank will always command greater confidence within a country like India than a Shareholders Bank.
- (3) Almost the entire profit made by the Reserve Bank will be derived from the resources and support of the State; and it is, therefore, desirable that the tax-payers should be benefitted to the fullest possible extent from the profits so derived.
- (4) It is an established fact that shareholders do not form a satisfactory electorate. No shareholder residing in *mofassil* would take the trouble of

spending money in travelling in order to exercise his right of vote. The use of proxies will be unavoidable; and election by proxies does not necessarily represent electorate.

- (5) In the case of a private bank, there will be no machinery to demand and enforce larger recruitment of Indians in the officers and subordinate grades. It is only in the case of a State Bank that Indianisation as a policy can be effectively enforced, as is evident from our experience of Railway Administration.

We regret that the possibility of establishing a bank on the basis of Stockholders Scheme, which was put forward by Mr. S. Srinivasa Iyengar, the Leader of the Opposition in 1927, and approved by Sir Basil Blackett, the then Finance Member, has not been sufficiently explored. It is a scheme about which Sir Basil said that—

“It is one that appeals to the Government and that they themselves are prepared to accept.”

In these days of financial uncertainty, this type of Reserve Bank would best suit the country as it could, at any future date, if and when circumstances demand, be easily converted either into Shareholders Bank or State Bank.

The Stockholders' Scheme is appended hereto. We, therefore, recommend that the Reserve Bank should be preferably an out-and-out State Bank on the model of the Joint Select Committee Bill of 1927 or, in the alternative, a bank on the Stockholder plan indicated above.

In case our proposal for a State Bank is not accepted by the legislature, we insist that following modifications are indispensable:—

Not less than three-fourths of the Directors or members of the Local Boards should be native Indian subjects of His Majesty.

The External Capital Committee, of which Sir Basil Blackett and Sir Charles Innes were members, accepted unanimously this just principle.

The Reserve Bank should establish its own branch in London, which should hold entirely the foreign balances and reserves of the Government of India. (Honourable Mr. Basu and Mr. Ram Saran Das dissent from this.)

We are of opinion that every shareholder should have one vote for each share with a maximum of 10 votes.

#### Reserve.

In determining the amount of Reserve and especially the nature of external reserve, we should consider three important factors—

1. Paper notes in circulation (amounting to Rs. 180 crores).
2. The silver rupees in circulation, which are really notes printed on silver.
3. Our annual external obligations, which amount roughly to about Rs. 70 crores.

It is difficult to determine exactly the amount of silver rupees in circulation or the exact amount of external obligations; and in view of the fact that the holders of rupees are as much entitled to demand sterling as the holders of the paper notes, and that the external reserve should be large enough to provide for the payment of our external obligations in an year of adverse trade balance, we suggest that the initial external reserve should be 60 per cent. of the liabilities instead of 50 per cent. as suggested in the Bill.

As a result of the Hilton-Young Commission proposals, the External Reserve was to have been Rs. 118 crores. Our present suggestion asks for an external reserve valued, at the outset, at Rs. 106 crores (with gold stocks valued at old parity, i.e., the same rate as in Hilton-Young Report).

As, in connection with the agreement between the Imperial Bank and the Reserve Bank, it has been agreed that the Imperial Bank should offer internal remittances to the scheduled banks from currency chests free of charge, we suggest that, as a result of this step, the scheduled banks should make inter-branch transfers for their constituents free of charge. In other countries, a cheque of any bank is cashed at any other bank without discount. Facilities of this kind will greatly increase the velocity of money in circulation.

For purposes of branch-banking development and to give impetus thereto, the Reserve Bank should maintain a list of approved banks. These approved banks must be confined to banks registered in India and satisfying certain minimum criteria as regards the capital and Balance-sheet position. Any approved bank opening a branch at a centre where there is no branch of an approved or scheduled bank should be entitled to an interest-free deposit of Rs. 3,00,000 from the Reserve Bank for the first two years, and Rs. 2,00,000 for the next two years.

#### Ratio.

We do not agree with the opinion that the ratio question is outside the province of the Reserve Bank Bill. The Reserve Bill will be responsible for maintaining the exchange within prescribed limits. This responsibility is particularly important in the case of India as she has definite, recurring, large external commitments.

This fact is being fully appreciated in devising the plan for a Reserve Bank for New Zealand. Since England went off gold standard, New Zealand pound has depreciated by 10 per cent. But in planning the scheme of the Reserve Bank, the authorities realised that in view of the Bank having to fulfil the external obligations of the country, the depreciation of 10 per cent. was not enough. It has now been decided to have a further lowering of the ratio by another 10 per cent. In the same way, the ratio is, we are convinced, part and parcel of the proposal to establish the Reserve Bank of India.

In our opinion, the eighteen pence ratio has done great harm to the country. The gravity of the harm done can be realised from the fact that India, which enjoyed, almost uninterruptedly, a favourable balance of trade in merchandise to the extent of about Rs. 80 crores per annum, had only a merchandise surplus of Rs. 3,38 crores in 1932-53.

Out of the normal surplus, India was finding it possible to meet her recurring external obligations and also to import treasure for the requirements of the population. Our foreign commitments are now being met by the export of 'distress gold'. This export cannot continue for long. Unless adequate measures are adopted to restore the favourable balance of trade in merchandise to the level of our foreign commitments, the Reserve Bank will be faced with an embarrassing situation right at the commencement as soon as the exports of gold cease or fall off.

We are definitely of the opinion that in view of the successful way in which countries like New Zealand and Australia have brought about favourable balances of trade by depreciating their currencies, India, too, should lower her ratio before inauguration of the Reserve Bank.

Since September, 1931, pound sterling has been allowed to depreciate to a level which the British Monetary authorities deem suitable in relation to Britain's economic conditions. By linking the rupee to sterling at the same old level, it is assumed that economic conditions are the same in both countries. If this were so, the movements in the Index of wholesale prices in India should correspond to the movements in the Index in the United Kingdom. But actually it is not so. The Index of wholesale prices in the United Kingdom has gone up by  $8\frac{1}{2}$  points between September 1931 and August 1933. On the other hand, the Index in the case of India has gone down by three points during this period. This disparity of  $6\frac{1}{2}$  points is a grave matter and shows conclusively that the rupee is over-valued.

The Government have admitted the extreme importance of raising the prices but no practical steps have yet been taken to achieve this object. In our opinion, the lowering of the ratio is the necessary first step to achieve this object

## ANNEXURE.

### STOCKHOLDERS' SCHEME.

The bank to be a State Bank and the Government to own the whole capital of the Bank.

The Government may issue 5 per cent. Government of India Reserve Bank stock at par in amounts of Rs. 100 and multiples thereof, but not exceeding Rs. 10,000, to an aggregate amount not exceeding the authorised capital of the bank. A register of Reserve Bank stockholders shall be maintained at Bombay, Calcutta, Madras, Rangoon, Lahore, Allahabad, Patna, Nagpore, Shillong and Delhi.

Stockholders shall be registered in a register of the province in which they are domiciled or ordinarily resident, or in which they have their principal place of business at their option, but no stockholder shall be registered in more than one register. Stock shall be registered in

amounts of Rs. 100 or multiples thereof and not more than Rs. 10,000.

Stock shall be registered in any one name.

Stockholders domiciled in Coorg shall be registered in Madras; stockholders domiciled in any of the areas directly administered by the Central Government shall be registered in Delhi.

Stock may not be held in the name of any one who is not domiciled in India or who is not a British subject ordinarily resident in British India. Each stockholder shall have one vote irrespective of his holding.

Stockholders on each register shall elect 60 trustees for Reserve Bank stockholders for the province in which the register is situated, provided that no trustees shall be elected unless there are not less than 1,000 individual stockholders of the register. The 60 persons who receive most votes at an election shall be elected.

Elections shall be held triennially and casual vacancies shall not be filled up.

A trustee shall hold not less than Rs. 1,000 nominal value of stock.

Trustees in each province shall elect one director to the Board of the Bank.

A Director shall hold Rs. 10,000 of Reserve Bank stock.

In order that trustees and directors may not have to go into the market and buy up the qualifying amount of stock, the Government shall retain unissued, in the first instance, not less than one crore nominal value of stock for issue to directors and trustees as occasion demands.

Directors and trustees must be qualified to be registered on the register of the province for which they are directors and trustees, respectively.

In addition to elected trustees, any person who is for the time being an elected member of the Council of State or of the Assembly for a constituency in the province shall be a Trustee *ex-officio*.

The Board of the Bank shall consist of one Governor, two Deputy Governors (one not voting), two Directors elected by the Associated Chambers, two Directors elected by the Federation of Indian Chambers, one Director elected by the Provincial Co-operative Banks, two Directors elected by trustees, four Directors nominated by the Governor General in Council, one Government officer not voting, in all 23 of whom 21 or 22 would be voting.

The Governor and Deputy Governors shall hold office for six years; Directors nominated by the Governor General shall be appointed for three years in the first instance and thereafter for five years; Directors elected by the Chambers of Commerce and by Provincial Co-operative Banks shall be elected for four years in the first instance and thereafter for five years; the Directors elected by the trustees shall hold office for five years.

It might further be provided that when the time comes for Local Boards, Local Directors together with five members of the Local Board elected by local trustees, shall form a Local Board to which such functions shall be assigned as the Reserve Bank Board may determine.



**Preference in allotment to small subscribers.**

Stock to be issued provincially, not more than forty lakhs of rupees to be issued in any one province at the outset.

SANT SINGH.  
HOSSAIN IMAM.  
VIDYA SAGAR PANDYA.  
\*B. K. BASU.  
\*NRIPENDRANARAYAN SINHA.  
B. DAS.  
MATHURA PRASAD MEHROTRA  
RAM SARAN DAS.  
GAYA PRASAD SINGH.

I have signed a note of dissent already. But I like to append this note of mine on a few points.

From the very commencement of the deliberations of the Committee it became apparent that the Committee will have to work under a very great handicap. The present Bill was drafted on the report of the Committee on the Indian Reserve Bank, which sat in London under the chairmanship of some person whose name has not been disclosed to us. This report was obviously based upon the recommendations of the Federal Structure Sub-Committee of the First Round Table Conference, where the Secretary of State for India had given the undertaking that "representative Indian opinion will be consulted in the preparation of proposals for the establishment of the Reserve Bank". It is not clear why this Committee sat in London. The "representative Indian opinion" was taken to mean certain nominees of Government in whose selection no chamber of commerce, or representative economic interest of India had any voice.

Indians under the present subordinate position have to work under a distinct disadvantage. But this disadvantage was further increased in this Committee when we found that Government of India, constituted as it is predominantly British in outlook, was not given the freedom of discussion. This created an atmosphere of distrust in the Joint Select Committee. Some of us in spite of ourselves had always to be on our guard against the "British Roller". Where intellect and reason should have been directed to discover the solution of the problems that the Reserve Bank scheme demanded, we were ever kept alert to watch India's interest lest this be subordinated to the economic needs of Great Britain. The wires between Delhi and Whitehall were constantly kept busy, and the rod of the Great Moghul hung over the Committee deliberations like the sword of Damocles. The majority report was greatly influenced by the attitude of the Whitehall, and, hence, its conclusions should be accepted with reserve.

I want to make it perfectly clear that I should not be understood to cast any reflection upon

\*I do not agree to the portion of this minute dealing with the question of ratio.

the attitude of the Chairman. The Chairman gave us all the latitude in fully discussing the various problems on their merits. He was very considerate, and sincerely tried to guide us with his expert knowledge and ripe experience. But though his heart was with us, the flesh was working under the same limitations.

After the Bill was referred to the Joint Select Committee, on the 5th of October, 1933, Sir Samuel Hoare is reported to have made the following statement before the Parliamentary Select Committee:

"We are asking the Indian Legislature by its own legislation to carry out arrangements that we say are essential for bringing the constitution into being. Obviously if that arrangement is to take effect it cannot be possible for the Indian Legislature at some future time to alter the conditions without which constitution would not have come into operation without the previous assent."

This statement filled us with some doubts about the desirability of our being a party to this legislation under the conditions indicated by the Secretary of State. Consequently, some members of the Committee drew the attention of the Chairman to this statement and requested him to clear the position. The Chairman promised to do so, and on the 31st October 1933, he issued the following press communiqué.

"With reference to the reports which had appeared in the press as to the statements made by the Secretary of State to the Joint Select Committee on the question of powers of amendment of any Reserve Bank legislation, the Finance Member made the following explanation to the Joint Select Committee on the Reserve Bank Bill this morning:

There has evidently been some misunderstanding as to the scope of the Secretary of State's answers to Lord Rankellour which were concerned only with a technical point raised in the course of the discussion on another subject and did not imply any change of view or policy, so far as the Secretary of State was concerned, as to the power of amendment of the Reserve Bank Act by the Indian Legislature subject to the prior consent of the Governor General. There is no intention under the present proposals that the British Parliament should undertake legislation amending the Reserve Bank Act. According to the White Paper proposals this would be the function of the Indian Legislature subject to the prior approval of the Governor General. The technical point with which the Secretary of State was concerned arises in the following way.

The Constitution Act will have to contain an Adaptation clause laying down how, when the constitutional changes at the Centre take place, the powers to be exercised by the Governor General in Council under the Reserve Bank Act will have to be exercised in the new constitution. If the British Government's proposals for the constitution are accepted by the Joint Select Committee and if the Constitution Act in the Adaptation clause were to declare that certain powers exercisable by the Governor General in

Council under the Reserve Bank Act were to be exercised in future by the Governor General at his discretion, and if in future it were desired by agreement that any particular power or powers thus provided for should be exercised by the Governor General on the advice of his Ministers and not at his discretion, then legislation giving effect to this would be an amendment of the Constitution Act and not of the Reserve Bank Act and could be undertaken by no other authority than the British Parliament unless the Constitution Act itself provided for this contingency. The question is now being considered whether such a provision can be included in the Constitution Act, and that is the point of doubt to which the Secretary of State was referring in his replies!"

We carefully studied it and were not satisfied with the reply. So twelve members of the Committee handed over the following statement to the Chairman.

"We have carefully considered the statement that you made on the evidence of the Secretary of State on October 5, 1933. We think it essential and necessary that in future the Indian Legislature should have the right to amend the Reserve Bank Act from time to time as it suits the interests of and conditions in India. We are agreeable to accept the condition that the previous sanction of the Governor General in Council, which in future constitution should only mean Governor General with the advice of his Minister, should be obtained for amending or repealing this Act, but we cannot accept that the Legislature should be handicapped in this matter by being asked to secure the sanction of the Governor General at his discretion, Secretary of State for India or the British Parliament. We consider this right to be of such a fundamental character as to make the details of the Bill much less important. If the Indian Legislature of the future is denied the right to take such matters into consideration as may be approved of or permitted by the Governor General on the advice of his Ministers, the Reserve Bank will be fettered in laying down the Currency and Exchange policy of India. Unless the matter is cleared up to our satisfaction, it will be our duty to advise the Legislature not to proceed with the consideration of the Reserve Bank Bill."

No satisfactory reply has been forthcoming since the statement was handed over to the Chairman. The constitutional position has not been clarified, so I will humbly request the House not to proceed with the consideration of the Reserve Bank Bill until and unless the constitutional position is made clear.

#### *Freedom from Political Influence.*

The Central Bank is essentially a nation's bank and hence it must be "*sui generis*, it must be as Indian as the Ganges". It follows from this that the proposed bank should be free from all foreign influences. As this bank is to control the currency and credit of the country, it is comprehensible that its working should be kept scrupulously free from all sorts of political influence and particularly from the ever changing party government, so that any Finance Minister may not be tempted to manipulate the currency to the requirements of an unbalanced budget.

The Bill though ostensibly aims at such a safeguard, it does not in fact provide a citadel against political influences. A cursory glance at the various clauses of the Bill reveals that while Indian political influence is done away with, British political influence has been introduced, which is likely to make the Whitehall the controlling factor of the currency policy of the bank; and it is feared that the Bank of England may assume the role of a dictator. The Governor General in Council, which in future constitution may mean Governor General at his discretion, has been given power under the Bill to have a final voice in the appointment of the Governor and the two Deputy Governors and in nominating four members to the Central Board. Thus a position of advantage has been secured to the Governor General, who will in future be in a position to exercise 35 per cent. of votes in the Central Board.

The Governor being the Chairman of the Board will exercise very great power and influence over the deliberations of the Board, and thus practically the political influence of the Governor General will be felt at every stage of the deliberations of the Central Board. Therefore, to say that the Bill eliminates all sorts of political influence is to say that which will not be the fact. An ill-conceived reserve bank scheme is likely to be a source of very great national harm. If we are unable to keep out all sorts of political influence, the next best alternative is to adopt the scheme of a state bank, so that the legislature should have a watching eye over its working.

#### *Discrimination.*

During the course of our deliberations the Chairman had drawn the attention of the Committee not to put in anything in the clauses of the Bill, which might have the appearance of discriminating against Britishers residing in India. We were reminded of the provisions in the White Paper and the deliberations of the Parliamentary Select Committee regarding discriminatory legislation. I think when some of us demanded that 75 per cent. of the shares of the bank should be held by Indian nationals and that the Central Board should have the same percentage of Indian directorate, we were not in any way enacting anything, which may be called discriminatory legislation. It was a simple case of what in another sphere of legislation under executive action is known as Indianisation. It is hardly possible in India even at this stage of development to enact any discriminatory legislation against Great Britain. The proclamation of Queen Victoria of 1858 was not a proclamation embodying any discrimination against Britisher, but rather it was an announcement that thenceforward no discrimination would be used against Indians in securing higher jobs in Government services, though we know that the provisions of that proclamation have not yet been given effect to though India has always been till to-day trying to get out of the discriminatory attitude of the British bureaucracy in India. If we now provide safeguards in our banking legislation that is to vitally affect the economic interests of this country, we only do so, so that like the Central Banks of all other countries, the Indian Central Bank may be predominantly Indian in outlook, in its constitution and in its working.

SANT SINGH.

Besides the other notes of dissent which I have signed with other members I wish to note a few more points in which I disagree with the majority of my colleagues. I further reserve to myself the right to move amendments to the Bill on points which are of minor nature and which are not noted below.

1. Should the shareholders scheme get the approval of the House I would suggest some amendments as an alternative to the scheme of 75 per cent. reservation for the Nationals. I advocate the division of the capital into equal parts of Class A and B shares; A to consist of hundred rupee shares and reserve for Indian subjects of His Majesty, Class B to be available to all those mentioned in sub-clause 3 of clause 4 and the shares being of rupees 500 each. Holders of two shares having one vote with a maximum of ten votes to each person. I have suggested the above scheme to meet the demand of market ability and full sale-ability of the shares which was greatly stressed in the Committee.

2. The suggestion in our report on clause 8 that the Governor General should exercise his powers of nomination to get representation of co-operative banking interest does not satisfy me. I would rather recommend a system by which the apex banks would select a panel of three names and then submit it to the Governor General in Council who would nominate one of the three to the Central Board of the Bank.

3. The powers vested by sub-clause 14 of clause 17 in the Bank to borrow money in India is an innovation upon central banking practice and in effect an inconceivable state of affair. The Bank can under no circumstances require money to sustain the credit from outside at a moment when they wish to operate. They can recall loan, sell securities, or transfer assets to the Issue Department and thereby get back any redundant money that might be in circulation. Therefore borrowing power should be confined to places outside India.

4. Though we have accepted 40 crores of gold holding on old parity, I strongly object to the exclusion of sterling securities from the list of the approved securities of the Issue Department. The advantage accruing from market operation in securities in reducing the rate of interest payable on Government accommodation is well known. We have to borrow money in London so often that it is desirable that our credit in London should be sustained. If the disastrous experience of six months before, when Government after successfully floating a loan of 3½ per cent. in India had to borrow within ten days money in London at 4 per cent., is to be guarded against and not repeated, it is essential that the Bank should deal in sterling securities. While not insisting upon their inclusion in the external assets my proposal to include them in the internal assets, was also turned down. It is a cold comfort to think that the Bank can in Central Banking Department operate in this line of business. The practice of central banking is to keep the greater part of their holdings in interchangeable securities, therefore in effect this provision will be more or less a dead letter. I am therefore left with no alternative but to suggest that the whole of the surplus profits dealt with in section 44 should be handed over to the Governor General in Council in the form of terminable sterling Indian loans for cancellation.

5. If lower ratio is not acceptable to the Government under clauses 40 and 41 I advocate the omission of these two clauses, and thereby emphasise the temporary nature of the provision as brought out in the preamble. It will be a return to the position in which we were before 1927, when Government was under no legal obligation to buy or sell exchange at any given figure. Maintenance of 18d. ratio will be too great a strain for the Bank and with the first adverse or inadequate trade balance its resources will be crippled, and it may even prove unable to maintain the ratio. Its failure on the other hand is bound to retard constitutional reform, therefore it is not advisable to subject it to the unbearable strain of maintaining the exchange.

6. In regard to the provisions of section 42 regarding the inclusion in list of schedule banks of only those concerns which have five lakhs of capital and reserves, is in my opinion unscientific. The Reserve Bank should take into account the deposits as well, as the compulsory deposit in the Bank is dependent upon schedule bank's liabilities to the public. The result of the present system is to give facilities to Mysore Industrial Bank of Bangalore with a total deposit of forty three thousand and refuse its facilities to Bhawanipore Bank of Calcutta which has a deposit of more than thirty two lakhs. I therefore advocate an additional qualification in sub-clause 6 to include all those banks who have a deposit account of more than ten lakhs in their hands.

7. In clause 53 I wish to so amend the Indian Coinage Act so as to make rupee coins legal tender up to Rs. 100 only, and thereby popularise notes, and incidentally help the return of rupee coins to the Issue Department. It might further reduce the popularity of rupee and thereby help us in the long run to establish a sounder basis for the currency.

HOSSAIN IMAM.

We, the undersigned members of the Joint Select Committee, to which the Reserve Bank of India Bill of 1933 was referred, beg to append the following Minute of Dissent to the Report that we have signed.

In our opinion the provision in clause 42 of the Bill to the effect that the Scheduled Banks should deposit 5 per cent. and 2 per cent. of their demand and time liabilities respectively should not be made by an enactment of the Legislature, but should be left to the convention that would grow up between the Reserve Bank and the member banks after the Reserve Bank is established and working. We desire to point out that the banks in India do not control the monetary position of the people and the country and that such deposits will tend to lower the dividends of Indian Banks and create other difficulties between such banks and their constituents without attaining the object for which the deposits are designed.

Since it has now been decided by the Committee that the Reserve Bank should take steps at the earliest practicable date and in any case within three years of its establishment to bring the indigenous bankers into the Reserve Banking system, we consider that only after the indigenous bankers have been linked up with the Reserve Bank, the question of

compulsory deposits from the Scheduled Banks should be properly and usefully taken up for consideration.

B. K. BASU.  
NRIPENDRANARAYAN SINHA.  
VIDYA SAGAR PANDYA.  
MATHURA PRASAD MEHROTRA.  
RAM SARAN DAS.  
MOHD. AZHAR ALL.

The November 17, 1933.

We must also give pointed expression to the strong and widespread feeling in the country as regards the most important constitutional issue affecting this Bill, we mean that "Legislation which affects the coinage and currency of the Federation, or the powers and duties of the Federal Reserve Bank in relation to management of currency and banking" can be undertaken by the Indian Legislature only with the consent of the Governor General "given at his discretion", which means, as laid down in the White Paper "under the directions of one of His Majesty's Principal Secretaries of State". This will imply under the direction of the British Cabinet, who will be naturally dominated by the London city or other foreign interests and influences. We are, therefore, of opinion that if this provision in the White Paper will not be modified, it will not confer even the shadow of financial autonomy with the establishment of the Federation. When we bear in mind that the life of the Bill will run almost a generation we cannot but hold that an institution which will have at its inception such obvious limitations will hardly "ensure confidence in the management of India's credit and currency", for the institution will fail to work in India, for India, and by Indians. In the event of no satisfactory assurance being forthcoming, we have no other option than to recommend to the Legislature to insist that the Bill be not proceeded with.

NRIPENDRANARAYAN SINHA.  
H. IMAM.  
VIDYA SAGAR PANDYA.  
B. DAS.  
MATHURA PRASAD MEHROTRA.  
GAYA PRASAD SINGH.  
RAM SARAN DAS.

The November 17, 1933.

In the other joint minutes of dissent we have set down the major points of disagreement with the majority report. We have touched here other points that we deem it our duty to bring to the notice of the Assembly.

I. In omitting provision of definition of "sterling standard countries" in section 2 (d) the Committee was influenced by the pressure of public opinion. The dream of London financiers to create "sterling standard countries" since England and a few other countries went off the gold standard in September, 1931, has ended in smoke and in spite of Indian Currency being tied down to the chariot wheel of sterling under compulsion, India is in no mood to accept a paper sterling standard. Further, owing to discriminating policies adopted against India and Indians by most of the British Dominions, India has no desire to help those Dominions directly or indirectly in their financial credit and throughout the Bill every attempt has been made to compel the Reserve Bank to deal in sterling securities of the United Kingdom.

Similarly, section 4 (c) has been redrafted to exclude citizens of any British Dominion which discriminates against Indians to hold shares of the Reserve Bank. It ought to be provided that the Governor General in Council should notify in the Gazette of India along with the publication of the Reserve Bank Act, the names of such Dominions that must be excluded. South Africa is the greatest sinner in this respect. Next comes Canada. We suggest that the Government of India should appoint a small committee to enquire if Australia and New Zealand can really be given equal facilities along with the citizens of the United Kingdom. We would prefer for the sake of national self-respect of India the Reserve Bank should not hold as assets of the Issue Department stocks or securities of such Dominions. Sec. 4(c).  
Sec. 33.

II Our colleagues signing the majority report place sublime faith in the desirability of distributing the shares and the voting rights attached to them as widely as possible. Yet, in the same breath, they disqualify and sterilize votes of so many shareholders by providing one vote for a holder of 5 shares of Rs. 100 each, which means that all shareholders holding 1 to 4 shares will have no voting power. The most democratic provision should be "one share, one vote" and "one person, one vote". Our colleagues have been more anxious for the conveniences of would-be-directors than widening the franchise. Sec. 4(b).  
Sec. 9(2).

III. The Joint Committee Report of 1927 provided for for one Governor and one Deputy Governor and specified in the body of the Bill that "one of these two shall be an Indian". At that time it was given out that the first Deputy Governor would be an Indian who would become full-fledged Governor after five years. Sec. 8(1A  
& (2).

We dissent from the change agreed to by our colleagues that there should be two Deputy Governors from the beginning. No reasons have been adduced that work will be too heavy for one Deputy Governor. In 1927 there was a talk of an Indian Assistant Deputy Governor. We are of opinion that there should be only one Deputy Governor for the present and that he should be an Indian sufficiently young to become Governor after five years. There should be no camouflage of appointment of a superannuated Indian as Deputy Governor for

there would then be no chance of that Indian becoming a Governor.

We further wish to record here the strong public feeling against any I. C. S. being appointed Governor or Deputy Governor of the Reserve Bank. The frenzied financial policy of civilian Finance Members should serve as a grave warning against their inclusion.

Sec. 17(3a)

IV. The omission of the word "persons" after the words "scheduled banks" is fraught with serious consequences. We believe there are certain firms on the approved list of the Government of India today—such as Rallis, Volkarts, etc.—who buy and sell sterling at better rates to Government. Not only there is no loss in rates but this practice has had a wholesome check on the Exchange Banks who will be debarred from combining to put the rates high. Section 18 has been amended to give power of direct discount to the Bank when special occasion needs it. We wish to ensure to the Bank this facility of dealing with other "persons" in normal times. Too much attention has been paid to the vested interests of London Stock Brokers and Exchange Banks and we strongly urge that the Legislature will rectify this omission.

Sec 18 .

V. How far Indian States are entitled to consideration from the Reserve Bank depends entirely on the sound financial position of individual States. We think it would be a grave risk if political considerations entitle some States such facilities. Knowing as we do the instability of life and property in some of these States, we doubt if the States would be prepared to disclose to the authorities of the Reserve Bank their real financial position. We urge that the Reserve Bank should not work as financial agents of any State that does not manage its public finance on sound principles and that does not possess a sound constitutional administration.

Sec. 17(2E).

VI. Our recommendations for the offer of free remittance facilities to the Scheduled Banks should be incorporated in the Regulations of the Reserve Bank and should also form one of the clauses in the agreement of the Reserve Bank with the Imperial Bank.

Secs. 33 & 37.

VII. The proviso in clause 37 is a make shift compromise which gives us little solace. We have to point out that our apprehensions are based on the fact that as the present ratio must be maintained by the Reserve Bank the assets of the Issue Department will be frittered away to keep up the forced ratio of 18d.

This point was strongly brought out in the course of evidence before us and the following extracts\* give in a nutshell what the country fears.

"Sir Purushotamdas Thakurdas: In any stress or emergency is it intended that if gold is reduced in proportion the following penalty laid down in the section comes in? It does not mean parting with gold.

\*Footnote by the Honorable Sir George Schuster (Chairman):

These discussions were informal conversations which were only loosely recorded, and circulated in order to refresh the memory of members. They have not been checked by those who took part in the discussions and cannot be regarded as accurate records.

GEORGE SCHUSTER.

Chairman (Sir George Schuster): It might mean parting with gold if you go down below 25 per cent. of your resources. If you go down to 20 per cent., you have to part with some of your gold. \* \* \* \* \*

Sir Purushotamdas Thakurdas: If the Committee decided to fix a figure as the minimum, whether it is 35 or 40, then at any rate that part of the gold cannot be touched.

Chairman: If it really cannot be touched, we have always said it might just as well be at the bottom of the sea. As a matter of fact you might remember that you yourself said in London that obviously if a crisis should occur, then it would require parting with gold. . . .

\* \* \* \* \*

Mr. Hossain Imam: It should be touched as a last resort after exhausting all other sources.

Sir Cowasji Jehangir: We desire to have a provision that whatever minimum may be put down, it shall not be touched until all other resources are exhausted.

Chairman: If it is never to be touched, it might never be there at all. It may be necessary to use it in the last resort and then to make it up again. . . .

\* \* \* \* \*

Sir Purushotamdas Thakurdas: Is it the intention that in order to maintain the ratio it will be permissible to the Reserve Bank to part with its gold?

Mr. Hossain Imam: Yes.

Sir Purushotamdas Thakurdas: Then that is one thing against which I want protection. I think until the bank has proved its merit people would rather sit on their gold.

Chairman: But it would be an absurd position to say that once you put gold into the reserves it should never be taken out. \* \* \* \* \* I entirely agree as a matter of fact with Sir Purushotamdas that a point would arise at which it would be obviously useless to continue the fight and it would be much better to preserve your resources, so that you have got something with which to start; but if you tie your hands absolutely, if you give yourself no latitude, if you lay down in the Act that under no conceivable circumstances can that particular portion be touched, then you cannot even use it as a basis perhaps for arranging credits, which might help you to carry on."

Our considered views are that the minimum gold reserve of 40 crores should never be touched. The proviso in Sec. 37 (1) only strengthens our fears that a shareholders' bank with an irresponsible Central Board and an autocratic Governor (who will not be an Indian from the beginning) is not the right machinery to establish the credit of India in its best interests.

VIII. The right remedy lies in the early revision of the ratio. The Indian members of the London Committee shirked this part of their responsibility, when they stated in the course of their London Report,—

Section 49(A)(2).

"A considerable majority of the Indian Delegates feel it their duty to record their view that a suitable exchange ratio is one of the essential factors for the successful working of the Reserve Bank. They point out that considerable changes have occurred in the currency

basis and policies of almost all the countries of the world in the last few years. In their view it is for the Government of India and the Legislature to examine these and all the other relevant considerations with a view to ensuring that the minimum possible strain is placed on the currency system of India."

The majority report gives some reasons for maintenance of the present ratio at 18d. The new Clause 49A (2) provides that the Bank (which for this purpose will mean the Central Board) when "it is of opinion that international monetary position has become sufficiently clear and stable to make it possible to determine what will be suitable as a permanent basis for the Indian monetary system and to frame permanent measures for a monetary standard, it shall report its views to the Governor General in Council". This does not meet the demand of the public which is for immediate alteration of the ratio. The public therefore expects the Central Board to do its duty to the country with the least possible delay, so that the Government will be compelled to take necessary measures for establishing a really suitable ratio and a permanent monetary standard.

VIDYA SAGAR PANDYA.  
B. DAS.

In addition to the joint note of dissent with my other colleagues I regret I cannot see eye to eye on the following points incorporated in the Bills—

(1) The Act shall remain in force for 25 years and the Legislature will have no power to amend it as members will have to seek permission of the Governor General in Council and the Secretary of State before introducing any amendments and such permission will never be given if it is inconvenient to them [clause 1 (4)]. I must, therefore, insist on the Legislature retaining power to make alterations on its own initiative.

(2) There ought to be a limit of Rs. 25,000 the maximum holding of shares by a single shareholder. In case it is not done the capitalists who have tons of money and are now prepared to invest at about 4 per cent. will purchase shares for large amounts. They will thus sterilize votes and deprive the agriculturists and middle classes of having any hand in the Bank. This will defeat the very object and the Bank will soon pass into the hands of capitalists. Moreover they will encourage and induce market manipulation so as to enable them to reap large profits by premiums thereby brought about. (Clause 4.)

(3) Instead of five centres there ought to be seven centres at places where currency offices are located at present, namely, Bombay,

Calcutta, Madras, Rangoon, Lahore, Cawnpore and Karachi. India is a vast country and hence the analogy of the central banks of other countries does not fit in. Besides there are countries which have got regional branches and it makes little difference if the number is increased from five to seven to serve the agriculturist and industrial portions of Northern

India. Besides the change will not incur any additional expenses too, rather it may prove to be cheaper in the long run. These currency offices will have to be maintained under the present scheme and so with a little addition and alteration in the staff, can be easily converted into Reserve Bank centres. Moreover as these are business centres they will save a lot from the amount which will have to be paid in commission to the Imperial Bank. No expenditure will have to be incurred in the construction of strong rooms and buildings as well. (Clause 6).

(4) The appointment of Governor and Deputy Governors should be made by the Governor General in Council from a panel of six men recommended by the directors of the Central Board and out of these three posts, at least two should be held by the natives of India [Clause 8 (a)].

(5) Out of the four directors nominated by the Governor General in Council at least two should definitely represent the agricultural and co-operative interests. India being an agricultural country, must have adequate representation from that class [clause 8 (b)].

(6) There should be ten instead of five elected members on Local Boards to give adequate representation of different interests, specially because they will form an electoral college to elect directors of the Central Board [Clause 9 (1a)].

(7) Sub-clause (4) of Clause 11 should be omitted. The object of disqualifying members of the Central and Provincial Legislatures is only to avoid political influence from the Bank. But if the Secretary of State and his representative the Governor General comes in places more than the number of the clauses of the Bill, the very object for which this sub-clause was inserted, is defeated. Surely he is the head of the biggest political party. Besides under the new reforms number of the members of the Local and Central Legislatures will be more than doubled and so we shall be depriving our best men from one of the two places. The directorship of the Reserve Bank is an engagement for about 10 to 12 days in a year which can be very easily afforded by members of Legislatures.

(8) The directors should elect their own chairman to preside in meetings instead of the Governor or Deputy Governor who are merely executive heads to carry out their decisions. This practice is prevailing in the Imperial Bank of India and there is no reason to depart from it [Clause 13(2)].

(9) The Governor General in Council should appoint a committee of three or five persons in the first instance to issue shares, make allotments of shares and carry out elections of Local and Central Boards and the day the Boards are completely elected, they should retire automatically. If the whole Board is nominated in the first instance, there is every danger of these persons forming a coterie and getting themselves re-elected [Clause 15 (4)].

(10) The words "or a provincial co-operative Bank" should be inserted after "schedule Banks" in sub-clauses 1(a) and (b) of Clause 17



to enable them to get equal advantages of purchasing, selling and rediscounting bills and promissory notes which the schedule banks shall derive. The words "or loans and advances" be also inserted after "cash credit" in 4(e) of the same clause to give this facility to co-operative institutions.

(11) *Agreement with the Imperial Bank of India.*

The terms offered to the Imperial Bank are very much on the side of generosity which it has not justified by its deeds and are practically the same as were offered in 1927-28 Bills in spite of the fact that it, since then, has taken advantage of the progress and expansion of five years more. It has totally refused to make advances on immoveable properties and has failed hopelessly to satisfy public expectations in the way of developing a bill market in India; it has not provided adequate finance to industry and agriculture; it has practically withdrawn its facilities to the co-operative institutions and failed to develop banking capital in the country. India is an agricultural country and it was but proper to expect that a quasi-government bank which had all their resources at its disposal, will do its best to render every possible help. In support of this argument I shall quote two sentences from the Central Banking Enquiry Committee Report (page 143):—

"The Policy of the Imperial Bank of India in regard to the grant of financial assistance to some of the provincial and central co-operative banks seems of late to have undergone a definite change and it is stated that it shows today a much smaller measure of readiness to help them than it used to do in the past. We consider that free remittances of funds for co-operative purposes is of the utmost importance to the co-operative movement and that no attempt should be made to curtail the privileges under the rules of the Government of India in this matter".

The payment of compensation to the Imperial Bank for "disappointed expectations" was made out by the London Committee. The claim is unprecedented in the banking history of the world and is preposterous. The agreement with the Government under which it opened 100 branches was made for ten years only and expired in 1931. It has hence not only exceeded the time of agreement by two years but established its first position in India owing to the Government backing and the enormous balances held free of interest.

In my opinion, the future agreement should be made on the following conditions if it is to act as sole agent of the Reserve Bank:—

1. The period of agreement is to be fixed for 10 years according to 1920 agreement.
2. It should get a commission of 1/16th of one per cent. on the first Rs. 100 crores and 1/32 of one per cent. on the remainder.

3. (a) During the first two years from that time it shall have one crore free of interest and 2 crores at 2 per cent.
- (b) During the second two years it shall have 50 lakhs free of interest and 24 crores at 2 per cent.
- (c) During next two years, it can have Rs. 3 crores at 2 per cent.
- (d) In subsequent years Rs. 3 crores at a rate of interest settled by the Reserve Bank.

MATHURA PRASAD MEHROTRA.

*The 18th November 1933.*

I have signed the Report of the Joint Select Committee appointed to consider the Reserve Bank of India Bill, 1933, subject to the following minute:—

It is unfortunate, but it cannot be denied, that, so far as the Muslim community is concerned, it cannot, in the existing conditions in India, rest content, with safety, on mere assurances on the protection of its interests in securing for it its due weightage in public institutions such as the Reserve Bank. In the circumstances, while the introduction of communal, or racial, controversy in the measure making for the establishment of the Reserve Bank is reprehensible, I shall not be doing my duty as a Muslim representative from Bengal if I do not express a desire to see some provision made in the measure for ensuring that the Muslim community should be given adequate representation in the Central and Local Boards. This reservation would not have been necessary, but discussions affecting the appointments of the Governor and two Deputy Governors have led to an assurance from the official members that provision will be made for securing one of the three appointments for a qualified Indian. Muslims would, therefore, naturally desire to be afforded an opportunity, of proving their capacity for holding one of these appointments, which will be earmarked for Indians, in rotation with members of other communities in India. Keeping in view the economic condition of Muslims, it is also desirable that there should be a definite provision in the Reserve Bank Act ensuring to them representation, as has been done in the case of agriculturists, in Central and Local Boards. This is essential if the Muslim community is not to be economically isolated.

I am also opposed to the imposition of such restrictive qualifications on the appointment of the Governor as in Section 8(1-A). To confine the appointment of those with "tested banking experience covering a period of not less than five years" would exclude many who, without actual banking experience, might have unquestioned and authoritative position in the world of commerce. Steps should be taken to see that men of acknowledged authority as financiers are not excluded from holding office as Governor simply because they have not served in a bank for five years.

In regard to the ratio question, I, in common with the other signatories of the Report, accept the assurance that it is not the intention of the Bill to raise the ratio issue. At the same time I think it will serve a useful purpose, if

I record it as my firm conviction that it is necessary that the Government should take steps to review the entire policy affecting the currency system in India, with a view to prevent the violent changes that have been taking place from time to time in the currency system of the country. This is not the time to create any monetary upheaval in the rupee-sterling sphere, but it is in the highest desirable that, as soon as monetary conditions in the world show signs of stability, an exhaustive inquiry should be instituted for establishing India's currency on a sound basis in relation to sterling.

MAHMOOD SUHRAWARDY.

• NEW DELHI,  
The 18th November, 1933.

At the very outset we desire to make it clear that it is absolutely essential, for acceptance of this Bill, that Governor General in Council shall mean only Governor General as advised by member in charge of Finance. It has been generally agreed that the Reserve Bank should be free from all political influence, both in India and England and if the power is left in the hands of the 'Governor General at his discretion' that will mean only his being dictated by the Secretary of State for India who will primarily be guided by the interests of the city of London. We have not received any assurance from the Government till the signing of the report that they accept the above interpretation about which we made a representation to the Chairman of the Joint Committee. Unless the assurance is forthcoming in the House we recommended the Bill should not be proceeded with.

*State vs. Shareholders' Bank:* Indian public opinion for various reasons demand a state bank and it is difficult to realise why the Government is so much against the idea of a state bank when they themselves accepted this very principle of a state bank in 1927. The main object of the Indian Reserve Bank should be the control and management of the currency and credit of India to the best interest of the country. Almost all the essential powers have been centralised in the hands of the Governor General in Council in the present Bill. The present scheme of a shareholders' bank as embodied in this Bill does not achieve its main object unless the possibility of the domination by the Secretary of State is entirely removed. The main objection, so far advanced, to a state bank is the difficulty of securing a proper Board of Directors, who would be free from political influence. Certainly, the obstacle is not insurmountable. Government can easily ensure the independence of such a board, as they do in the case of the highest judiciary in the land. The Government's own attempt to reorganise the Railway Board, making it free from political interference, is a proof positive that they can do the same thing in the case of a state bank, if they so desire. If after their appointment, the directors are kept free to act in the best interest of the country, we see no reason whatsoever why a state bank should not be feasible and practicable. For all these reasons we definitely come to the conclusion that, to serve the best interest of the country,

the proposed Reserve Bank should be a state bank, and we, therefore, recommend for its acceptance.

*Control by natural born Indians:* We fully realise that there is a very strong public feeling in the country that the shares of the Reserve Bank and its control should remain in the hands of the natural born Indians. We agree with that view and we believe that the purpose has been attained by the provisions of the amended Bill. In order to ensure that object we further recommend that Government should carefully watch the situation so that the expectations may not be frustrated.

*Limitation of holding of shares:* We prefer to fix a maximum limit for holding of shares of the Reserve Bank at rupees twenty thousand, with a view to prevent concentration of shares and thereby avoid domination by a powerful few.

*London Branch:* It is our decided opinion that the Reserve Bank must have a branch in London from the beginning, to keep it free from the domination of the Bank of England and also to provide facilities for training of Indians in international money market. Besides, India, unlike other countries, stands on a different footing, inasmuch as she has to meet enormous payments in the shape of Home charges.

*Branche in India:* On the question of starting of branches in Lahore, Karachi and Cawnpore we keep an open mind and do not wish to say anything except mentioning that there are at present currency offices in all these centres involving a large amount of expenditure and that official members of the Committee also agreed that Reserve Bank branches, if opened in these centres, may not entail a great additional expenditure.

*Exchange Ratio:* We have decided views on the present exchange ratio that it is not in the best interest of India, we are, therefore, unable to accept fixation of any ratio by Statute. We would, therefore, prefer it to be left to be settled on the report of an Expert Committee and which should subsequently be confirmed by Legislature.

*Period of Agreement with Imperial Bank:* The period of agreement with the Imperial Bank, in our opinion, should be 10 years, instead of 15 years, subject to termination on 5 years' notice given any time after that period, thus providing the Imperial Bank with an agreement of 15 years certain. We recommend that the terms of agreement with the Imperial Bank should be further scrutinised before being finally accepted by the House.

*Buying up Shares by Government:* We are also of opinion that Government should have the right to buy up all shares of the Reserve Bank after reasonable lapse of time.

There are certain other minor details which we do not like to refer in this Note but which we will be at liberty to bring before the Assembly.

BHUPUT SING.  
MOHD. AZHAR ALL.  
S. C. MITRA.



*Chapter II, Clause 4 (2 & 5).*—The Reserve Bank should have a branch and a separate register of shareholders in Lahore also. The areas mentioned in 5 (c) should be so split up that the whole of the Punjab, N.W.F.P., Baluchistan, Jammu and Kashmir, and the Punjab States are attached to this centre. The great importance of Lahore from the banking point of view may be gathered from the following facts:—

(a) That the centre of the Manager, Northern India branches of the Imperial Bank of India has been shifted from Delhi to Lahore.

(b) There are in Lahore a large number of Indian and exchange banks and the Head Office of more than one important bank.

(c) The indigenous Banks in the Punjab including the Co-operative Banks control resources of nearly 20 crores.

(d) The Co-operative movement in the Punjab is particularly strongly developed and there is an extensive ramification of financially sound Co-operative Central Banks.

(e) The Punjab, being an important agricultural province, where stocking of wheat, cotton and oil seeds is widely practised, may need extensive facilities from the Reserve Bank as contemplated in Section 17.

(f) The close proximity (32 miles of Amritsar)—a very important commercial centre in Northern India where investment against stock as well as foreign exchange business is carried on an extensive scale, is a further argument in favour of establishment of a Branch of the Reserve Bank at Lahore. The establishment of a Branch of the Reserve Bank in such an area would inspire confidence and give an assurance to the Banks and the Commercial community in this part of the country that the Reserve Bank is something real and not a phantom institution functioning through the Imperial Bank. Moreover, rediscount facilities to be really effective must be obtainable at the door. If an office of the Reserve Bank is not established in the Punjab the impression will go abroad among the Punjab Banks that the Reserve Bank was an institution that had given them absolutely nothing in return for compulsory deposits. The additional cost on account of a branch in Lahore will be inconsiderable. The currency office, now located in Lahore, would no longer be required; and this means that what is now spent on the currency office will be set free for the Reserve Bank branch. Moreover, I understood the Honourable Mr. Taylor to say that the amount payable to the Imperial Bank on the basis of 1/16 on turnover would be roughly Rs. 1 lakh for Lahore. The opening of a branch of the Reserve Bank there is likely to result in a saving. For a centre so important as Lahore where a branch would not mean any heavy additional cost, the mere agency of the Reserve Bank would not suffice. A Branch is essential. The same arguments apply to opening of a branch at Cawnpore and at Karachi.

RAM SARAN DAS.

18th November, 1933.

*Ratio.*—Clauses 40 and 41, I feel, should be amended as follows:—

Delete in Clauses 40 and 41 words after "at a rate" down to "rupee". Substitute "at a rate to be fixed by the Governor General in Council subject to approval of the Central Legislature before the ratio comes into force."

My contention is that the causes which prevented the London Committee from committing the Reserve Bank to any particular limits of exchange either in terms of Gold or Sterling, are operative even today. The Economic situation in the world at large is in fact definitely worse than it was prior and subsequent to the World Economic Conference the period in which the London Committee sat for its deliberations. "The monetary disorganisation throughout the world has been on the increase; and there is no immediate prospect of 'monetary system' being recast or stabilised." Some of us then hoped that world forces, then working, would have brought about the stabilisation of currencies by the time the Reserve Bank Bill was introduced in India. But if our hopes have been belied, it all the more shows that the world economic situation does not justify binding the Reserve Bank to any higher and lower limits of ratio so far ahead of its commencing business. If the proposed limits are the most feasible when the Reserve Bank is about to commence business, the Governor General in Council will have no difficulty in fixing it and in securing its confirmation by the Central Legislature. On the other hand, if conditions are otherwise, the Central Legislature will not have fettered itself, and the Reserve Bank so far ahead to the maintenance of what to all intents and purposes must seem fictitious and more or less speculative rates. My amendment, if accepted, therefore, makes the position much easier for the Government, and is likely to remove many of the genuine doubts and suspicions of the people.

RAM SARAN DAS.

18th November, 1933.

In the majority Report on Section 42 (c) the Central Board is asked to prepare, within three years, proposals for the closer linking of agricultural enterprise with the machinery of the Reserve Bank. It seems to me that the significance of this principle must be widened and further emphasised. The Central Banking Enquiry Committee have made various suggestions for the expansion of our banking system so as to meet and cater to the needs of industry and agriculture; and the committee have indicated that the Reserve Bank should be the core and centre of the banking system and should take a lead in the reforms and measures necessary for expansion. Industry in India is in need of urgent and imperative help if this country is to make any progress and is to find a solution for the menacing unemployment problem. Agriculture is in a sorry plight and also needs immediate assistance. It should, therefore, be laid down that the Reserve Bank should, on the basis of the Banking Enquiry

recommendations, put forward within three years, definite proposals for adequate facilities being made available for industry as well as agriculture.

It is agreed that the citizens of such Dominions as do maintain any measure of discrimination against Indians should not be allowed equal privileges in India. I maintain that the power to decline allotment or transfers

to the Nationals of such Dominions must rest in the Central Board and that the resting of such power in any other authority will be depriving the Central Board of its legitimate authority and power.

RAM SARAN DAS.

18th November, 1933.

[AS AMENDED BY THE JOINT COMMITTEE.]

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

(Where the numbering or lettering of the Bill has been changed the former numbers or letters are indicated in the right hand margin.)

## THE RESERVE BANK OF INDIA BILL, 1933.

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## THE SCHEDULES.

▲  
**BILL**

TO

*Constitute a Reserve Bank of India.*

**WHEREAS** it is expedient to constitute a Reserve Bank for India to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage.

**AND WHEREAS** in the present disorganisation of the monetary systems of the world it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system ;

**BUT WHEREAS** it is expedient to make temporary provision on the basis of the existing monetary system, and to leave the question of the monetary standard best suited to India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures ;

It is hereby enacted as follows :—

**CHAPTER I.**

**PRELIMINARY.**

**1. (1)** This Act may be called the Reserve Bank Short title, extent, of India Act, 1933. commencement and duration.

**(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 as the Governor General in Council may, by notification in the Gazette of India, appoint.

**(4)** *This Act* shall remain in force for a period of twenty-five years and thereafter until repealed.

**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 Central Board” means the Central Board of Directors of the Bank ;

\* \* \* \* \*

**(c)** “provincial co-operative bank” means the principal society in a province which is registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies and the primary object of which is the financing of the other societies in the province which are or are deemed to be so registered :

*Provided that where there is no such principal society in a province the Local Government may declare any central co-operative society in that province to be a provincial co-operative society within the meaning of this definition ;*

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- (d) "rupee coin" means silver rupees which are legal tender under the provisions of the Indian Coinage Act, 1906; and (f)
- (e) "scheduled bank" means a bank included in the Second Schedule. (g)

## CHAPTER II.

### INCORPORATION, SHARE CAPITAL, MANAGEMENT AND BUSINESS.

3. (1) A Bank to be called the Reserve Bank of Establishment and India shall be constituted incorporation of Reserve Bank. for the purposes 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.

4. (1) The original share capital of the Bank shall be five crores of rupees divided into shares of one hundred rupees each, which shall be fully paid up.

(2) Separate registers of shareholders shall be maintained at Bombay, Calcutta, Delhi, Madras and Rangoon, and a separate issue of shares shall be made in each of the areas served by those registers, as defined in the First Schedule, and shares shall be transferable from one register to another.

(3) A shareholder shall be qualified to be registered as such in any area in which he is ordinarily resident or has his principal place of business in India, but no person shall be registered as a shareholder in more than one register; and no person who is not—

(a) domiciled in India and either an Indian subject of His Majesty, or a subject of a State in India, or

(b) a British subject ordinarily resident in India and domiciled in the United Kingdom or in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, or

(c) a company registered under the Indian Companies Act, 1913, or a society registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies or a scheduled bank, or a corporation or company incorporated by or under an Act of Parliament or any law for the time being in force in any part of His Majesty's Dominions the government of which does not discriminate in any way against Indian subjects of His Majesty, and having a branch in British India,

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shall be registered as a shareholder or be entitled to payment of any dividend on any share.

\* \* \* \* \*

(4) The Governor General in Council shall, by notification in the Gazette of India, specify the parts of His Majesty's dominions which shall be deemed for the purposes of clauses (b) and (c) of sub-section (3) to be the parts of His Majesty's Dominions in which no discrimination against Indian subjects of His Majesty exists.

(5) The nominal value of the shares originally assigned to the various registers shall be as follows, namely :—

- (a) to the Bombay register—one hundred and forty lakhs of rupees ;
- (b) to the Calcutta register—one hundred and forty-five lakhs of rupees ;
- (c) to the Delhi register—one hundred and fifteen lakhs of rupees ;
- (d) to the Madras register—seventy lakhs of rupees ;
- (e) to the Rangoon register—thirty lakhs of rupees :

*Provided that if at the first allotment the total nominal value of the shares on the Delhi register for which applications are received is less than one hundred and fifteen lakhs of rupees, the Central Board shall, before proceeding to any allotment, transfer any shares not applied for up to a maximum nominal value of thirty-five lakhs of rupees from that register in two equal portions to the Bombay and the Calcutta register.*

(6) In allotting the shares assigned to a register, the Central Board shall, in the first instance, allot five shares to each qualified applicant who has applied for five or more shares ; and, if the number of such applicants is greater than one-fifth of the total number of shares assigned to the register, shall determine by lot the applicants to whom the shares shall be allotted.

(7) If the number of such applicants is less than one-fifth of the number of shares assigned to the register, the Central Board shall allot the remaining shares firstly, up to the limit of one-half of such remaining shares, to those applicants who have applied for less than five shares, and thereafter as to the balance to the various applicants in such manner as it may deem fair and equitable, having regard to the desirability of distributing the shares and the voting rights attached to them as widely as possible.

(8) *Notwithstanding anything contained in sub-sections (6) and (7), the Central Board shall reserve for and allot to Government shares of the nominal value of two lakhs and twenty thousand rupees to be held by Government for disposal at par to Directors seeking to obtain the minimum share qualification required under sub-section (2) of section 11.*

(9) If, after all applications have been met in accordance with the provisions of \* sub-sections (6), (7) and (8), any shares remain unallotted, they shall, notwithstanding anything contained in this section, be allotted to and taken up by Government, and shall be sold by the Governor General in Council as soon as may be, at not less than par \* \* \*, to residents of the areas served by the register concerned.

(10) The Governor General in Council shall have no right to exercise any vote under this Act by reason of any shares \* allotted to him under sub-section (8) or under sub-section (9).

(11) *A Director shall not dispose of any shares obtained from Government under the provisions of sub-section (8) otherwise than by re-sale to Government at par, and Government shall be entitled to re-purchase at par all such shares held by any Director on his ceasing from any cause to hold office as Director.*

5. (1) The share capital of the Bank may be increased by the Central Board with the previous sanction of the Governor General in Council and with the approval of the Central Legislature.

(2) The additional shares so created shall be of the nominal value of one hundred rupees each and shall be assigned to the various registers in the same proportions as the shares constituting the original share capital.

(3) Such additional shares shall be fully paid up, and the price at which they may be issued shall be fixed by the Central Board with the previous sanction of the Governor General in Council.

(4) The provisions of section 4 relating to the manner of allotment of the shares constituting the original share capital shall apply to the allotment of such additional shares, and existing shareholders shall not enjoy any preferential right to the allotment of such additional shares.

(5) The share capital of the Bank may be reduced by the Central Board, with the previous sanction of the Governor General in Council, to such extent and in such manner as may be determined by the Bank in general meeting.

6. \* \* \* \* \*  
 \* \* \* \* \*  
 \* Offices, branches and agencies. \* The Bank shall, as soon as may be, establish offices in Bombay, Calcutta, Delhi, Madras and Rangoon, and may establish branches or agencies in any other place in India or in London or with the previous sanction of the Governor General in Council, elsewhere.

7. The general superintendence and direction of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank and are not by this Act expressly directed or required to be done by the Bank in general meeting.

8. (1) The Central Board shall consist of the following Directors, namely:—  
 Composition of the Central Board, and term of office of Directors.

- (a) a Governor and two Deputy Governors, to be appointed by the Governor General in Council after consideration of the recommendations made by the Board in that behalf;
- (b) four Directors to be nominated by the Governor General in Council;
- (c) eight Directors to be elected on behalf of the shareholders on the various registers, in the manner provided in section 9 and in the following numbers, namely:—
  - (i) for the Bombay register—two Directors;
  - (ii) for the Calcutta register—two Directors;
  - (iii) for the Delhi register—two Directors;
  - (iv) for the Madras register—one Director;
  - (v) for the Rangoon register—one Director; and



(d) one government official to be nominated by the Governor General in Council.

(2) No person shall be appointed as Governor (1A) unless he is a person of tested banking experience covering a period of not less than five years.

(3) The Governor and Deputy Governors shall (2) devote their whole time to the affairs of the Bank, and shall receive such salaries and allowances as may be determined by the Central Board, with the approval of the Governor General in Council.

(4) A Deputy Governor and the Director (3) nominated under clause (d) of sub-section (1) may attend any meeting of the Central Board and take part in its deliberations but shall not be entitled to vote :

Provided that when the Governor is absent a Deputy Governor authorized by him in this behalf in writing may vote for him.

(5) The Governor and a Deputy Governor (4) shall hold office for such term not exceeding five years as the Governor General in Council may fix when appointing them, and shall be eligible for re-appointment.

A Director *nominated under clause (b) or elected under clause (c) of sub-section (1)* shall hold office for five years, or thereafter until his successor shall have been duly *nominated or elected*, and, subject to the provisions of section 10, shall be eligible for *re-nomination or re-election*.

A Director *nominated under* \* \* \* clause (d) of sub-section (1) shall hold office during the pleasure of the Governor General in Council.

(6) No act or proceeding of the Board shall be (5) questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

9. (1) A Local Board shall be constituted for each of the five areas specified in the First Schedule, and shall consist of—  
Local Boards, their constitution and functions.

(a) five members elected from amongst themselves by the shareholders who are registered on the register for that area and are qualified to vote, and

(b) not more than three members nominated by the Central Board *from amongst the shareholders registered on the register for that area*, who may be nominated at any time :

*Provided that the Central Board shall in exercising this power of nomination aim at securing the representation of territorial or economic interests not already represented, and in particular the representation of agricultural interests and the interests of co-operative banks.*

(2) At an election of members of a Local Board for any area, any shareholder who has been registered on the register for that area, for a period of not less than six months ending with the date of the election, as holding five shares shall have one vote, and each shareholder so registered as having more than five shares shall have one vote for each five shares, but subject to a maximum of ten votes, and such votes may be exercised by proxy appointed on each occasion for that purpose, such proxy being himself a shareholder entitled to vote at the election and not being an employee of the Bank.

(3) The members of a Local Board shall hold office until they vacate it under sub-section (6)

and, subject to the provisions of section 10, shall be eligible for re-election or re-nomination, as the case may be.

(4) At any time within three months of the day on which the Directors representing the shareholders on any register are due to retire under the provisions of this Act, the Central Board shall direct an election to be held of members of the Local Board concerned, and shall specify a date from which the registration of transfers from and to the register shall be suspended until the election has taken place.

(5) On the issue of such direction the Local Board shall give notice of the date of the election and shall publish a list of shareholders holding five or more shares, with the dates on which their shares were registered, and with their registered addresses, and such list shall be available for purchase not less than three weeks before the date fixed for the election.

(6) The names of the persons elected shall be notified to the Central Board which shall thereupon proceed to make any nominations permitted by clause (b) of sub-section (1) it may then decide to make, and shall fix the date on which the outgoing members of the Local Board shall vacate office, and the incoming members shall be deemed to have assumed office on that date.

(7) The elected members of a Local Board shall, as soon as may be after they have been elected, elect from amongst themselves one or two persons, as the case may be, to be Directors representing the shareholders on the register for the area for which the Board is constituted.

(8) A Local Board shall advise the Central Board on such matters as may be generally or specifically referred to it and shall perform such duties as the Board may, by regulations, delegate to it.

10. (1) No person may be a Director or a member of a Local Board who is not or has not at some time been engaged in agricultural, commercial, financial or industrial activities,

\* \* \* \* \*

(2) No person may be a Director or a member of a Local Board who—

- (a) is a salaried government official or a salaried official of a State in India, or
- (b) is, or at any time has been, adjudicated an insolvent, or has suspended payment or has compounded with his creditors, or
- (c) is found lunatic or becomes of unsound mind, or
- (d) is an officer or employee of any bank, or
- (e) is a director of any bank, other than a bank which is a society registered or deemed to be registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies.

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\* \* \* \* \*

(3) No two persons who are partners of the same mercantile firm, or are directors of the same private company, or one of whom is the general agent of or holds a power of procuration from the other, or from a mercantile firm of which the other is a partner, may be Directors or members of the same Local Board at the same time.

(4) Nothing in sub-section (1) or in clause (a), (3) clause (d) or clause (e) of sub-section (2) shall apply to the Governor, or to a Deputy Governor or to the Director nominated under clause (d) of sub-section (1) of section 8.

11. (1) The Governor General in Council may remove from office the Governor, or a Deputy Governor or any nominated or elected Director :

Removal from and vacation of office. \* Governor, or a Deputy Governor or any nominated or elected Director :  
Provided that in the case of a Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8 this power shall be exercised only on a resolution passed by the Central Board in that behalf by a majority consisting of not less than nine Directors.

(2) A Director nominated or elected under clause (b) or clause (c) of sub-section (1) of section 8, and any member of a Local Board shall cease to hold office if, at any time after six months from the date of his nomination or election, \* he is not registered as a holder of unencumbered shares of the Bank of a nominal value of not less than five thousand rupees, or if he ceases to hold unencumbered shares of that value, and any such Director shall cease to hold office if without leave from the Governor General in Council he absents himself from three consecutive meetings of the Central Board.

(3) The Governor General in Council shall remove from office any Director, and the Central Board shall remove from office any member of a Local Board, if such Director or member becomes subject to any of the disqualifications specified in sub-section (2) or sub-section (3) of section 10.

(4) A Director or member of a Local Board (3-A) removed or ceasing to hold office under the foregoing sub-sections shall not be eligible for re-appointment either as Director or as member of a Local Board until the expiry of the term for which his appointment was made.

(5) The appointment, nomination or election as (4) Director or member of a Local Board of any person who is a member of the Indian Legislature or of a local Legislature shall be void, unless, within two months of the date of his appointment, nomination or election, he ceases to be such member, and, if any Director or member of a Local Board is elected or nominated as a member of any such Legislature, he shall cease to be a Director or member of the Local Board as from the date of such election or nomination, as the case may be.

(6) A Director may resign his office to the (5) Governor General in Council, and a member of a Local Board may resign his office to the Central Board, and on the acceptance of the resignation the office shall become vacant.

12. (1) If the Governor or a Deputy Governor Casual vacancies and by infirmity or otherwise absences. is rendered incapable of executing his duties or is absent on leave or otherwise in circumstances not involving the vacation of his appointment, the Governor General in Council may, after consideration of the recommendations made by the Central Board in this behalf, appoint another person to officiate for him, and such person may, notwithstanding anything contained in clause (d) of sub-section (2) of section 10, be an officer of the Bank.

(2) If an elected Director is for any reason unable to attend a particular meeting of the Central Board, the elected members of the Local Board of the area which he represents may elect one of their number to take his place, and for the purposes of that meeting the substitute so elected shall have all the powers of the absent Director.

\* \* \* \* \*

(3) Where any casual vacancy in the office of any member of a Local Board occurs otherwise than by the occurrence of a vacancy in the office of a Director elected by the Local Board, the Central Board may nominate thereto any qualified person recommended by the elected members of the Local Board.

(4) Where any casual vacancy occurs in the office of a Director other than the vacancies provided for in sub-section (1), the vacancy shall be filled, in the case of a nominated Director by nomination, and in the case of an elected Director by election held in the manner provided in section 9 for the election of Directors :

*Provided that before such election is made the resulting vacancy in the Local Board and any vacancy in the office of an elected member of such Board which may have been filled by a member nominated under sub-section (3) shall be filled by election held as nearly as may be in the manner provided in section 9 for the election of members of a Local Board.*

(5) A person nominated or elected under this section to fill a casual vacancy shall, subject to the proviso contained in sub-section (4), hold office for the unexpired portion of the term of his predecessor.

13. (1) Meetings of the Central Board shall be convened by the Governor at least six times in each year and at least once in each quarter.

(2) Any three Directors may require the Governor to convene a meeting of the Central Board at any time and the Governor shall forthwith convene a meeting accordingly.

(3) The Governor, or in his absence the Deputy Governor authorized by the Governor under the proviso to sub-section (4) of section 8 to vote for him, shall preside at meetings of the Central Board, and, in the event of an equality of votes, shall have a second or casting vote.

14. (1) A general meeting (hereinafter in this Act referred to as the annual general meeting) shall be held annually at a place where there is an office of the Bank within six weeks from the date on which the annual accounts of the Bank are closed, and a general meeting may be convened by the Central Board at any other time :

*Provided that the annual general meeting shall not be held on two consecutive occasions at any one place.*

(2) Any shareholder shall be entitled to attend at any general meeting, and each shareholder who has been registered on any register, for a period of not less than six months ending with the date of the meeting, as holding five shares shall have one vote, and each shareholder so registered as having more than five shares shall have one vote for each five shares, but subject to a maximum of ten votes ; and such votes may be exercised by proxy.

15. (1) The following provisions shall apply to the first constitution of the Central Board, and, notwithstanding anything contained in section 8, the Central Board as constituted in accordance therewith shall be deemed to be duly constituted in accordance with this Act.

(2) The first Governor and the first Deputy Governor or Deputy Governors shall be appointed by the Governor General in Council on his own initiative, and shall receive such salaries and allowances as he may determine.

(3) The first eight Directors representing the shareholders on the various registers shall be nominated by the Governor General in Council from the areas served respectively by those registers, and the Directors so nominated shall hold office until their successors shall have been duly elected as provided in sub-section (4).

(4) On the expiry of each successive period of twelve months after the nomination of Directors under sub-section (3) two Directors shall be elected in the manner provided in section 9 until all the Directors so nominated have been replaced by elected Directors holding office in accordance with section 8. The registers in respect of which the election is to be held shall be selected by lot from among the registers still represented by nominated Directors, and for the purposes of such lot the Madras and Rangoon registers shall be treated as if they comprised one register only.

16. As soon as may be after the commencement of this Act, the Central Board shall direct elections to be held and may make nominations, in order to constitute Local Boards in accordance with the provisions of section 9, and the members of such Local Boards shall hold office up to the date fixed under sub-section (6) of section 9, but shall not exercise any right under sub-section (7) of that section.

17. The Bank shall be authorized to carry on Business which the Bank may transact 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, the Secretary of State in Council, the Governor General in Council, Local Governments, States in India, local authorities, banks and any other persons ;
- (2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn on 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 nine months from the date of such purchase or rediscount, exclusive of days of grace :  
\* \* \* \* \*

- (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, or such securities of States in India as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace ;
- (3) (a) the purchase from and sale to scheduled banks of sterling in amounts of not less than the equivalent of one lakh of rupees ;
- (b) the purchase, sale and rediscount of bills of exchange (including treasury bills) drawn in or on any place in the United Kingdom and maturing within ninety days from the date of purchase, provided that no such purchase, sale or rediscount shall be made in India except with a scheduled bank ; and
- (c) the keeping of balances with banks in the United Kingdom ;
- (4) the making to States in India local authorities, scheduled banks and provincial co-operative banks 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 immovable property) in which a trustee is authorized to invest trust money by any Act of Parliament or by any law for the time being in force in British India ;
- (b) gold \* or silver 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 : \* \* \* ;  
\* \* \* \* \*
- (d) promissory notes of any scheduled bank (e) or a provincial co-operative bank, supported by documents of title to goods which have been transferred, assigned, \* or pledged to any such bank as security for a cash credit granted for *bond fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops :  
\* \* \* \* \*
- (5) the making \* \* to the Governor General in Council and to such Local Governments as may have the custody and management of their own provincial revenues of advances repayable in each case not later than three months from the date of the making of the advance ;
- (6) the issue of demand drafts made payable at its own offices or agencies and the making, issue and circulation of bank post bills \* \* \* ;

- (7) the purchase and sale of *Government securities of the United Kingdom* maturing within *ten years* from the date of such purchase, \* \* \* ;
- (8) the purchase and sale of securities of the Government of India \* \* \* or of a Local Government of *any maturity* \* \* \* or of such securities of a *local authority in British India or of such States in India* \* \* \* as may be specified in this behalf by the Governor General in Council on the recommendation of the Central Board :

*Provided that securities fully guaranteed as to principal and interest by the Government of India, a Local Government, a local authority or a State in India shall be deemed for the purposes of this clause to be securities of such Government, authority or State :*

*Provided further 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 share capital of the Bank, the Reserve Fund and *three-fifths* of the liabilities of the Banking Department in respect of deposits ;
- \* \* \*
- (b) the value of such securities maturing after one year shall not exceed the aggregate amount of the share capital of the Bank, the Reserve Fund and *two-fifths* of the liabilities of the Banking Department in respect of deposits ; and
- (c) the value of such securities maturing after ten years shall not exceed the aggregate amount of the share capital of the Bank and the Reserve Fund and *one-fifth* of the liabilities of the Banking Department in respect of deposits ;
- (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 movable 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 or local authority or State in India 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 or the making of an agency agreement with, and the acting as agent or correspondent of, a bank which is the principal currency authority of any country under the law for the time being in force in that country ;
- (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 no money shall be borrowed under this clause from any person in India other than a scheduled bank, or from any person outside India other than a bank which is the principal currency authority of any country under the law for the time being in force in that country :

Provided further that the total amount of such borrowings from persons in India shall not at any time exceed the amount of the share capital of the 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 to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

18. When, in the opinion of the Central Board or, where the powers and functions of the Central Board under this section have been delegated to a committee of the Central Board or to the Governor, in the opinion of such committee or of the Governor, as the case may be, a special occasion has arisen making it necessary or expedient that action should be taken under this section for the purpose of regulating credit in the interests of Indian trade, commerce, industry and agriculture, the Bank may, notwithstanding any limitation contained in sub-clauses (a) and (b) of clause (2) or sub-clause (a) or (b) of clause (3) or clause (4) of section 17,—

- (1) purchase, sell or discount any of the bills of exchange or promissory notes specified in sub-clause (a) or (b) of clause (2) or sub-clause (b) of clause (3) of that section though such bill or promissory note does not bear the signature of a scheduled bank or a provincial co-operative bank ; or
- (2) purchase or sell sterling in amounts of not less than the equivalent of one lakh of rupees ; or
- (3) make loans or advances repayable on demand or on the expiry of fixed periods not exceeding ninety days against the various forms of security specified in clause (4) of that section :

Provided that a committee of the Board or the Governor shall not, save in cases of special urgency, authorize action under this section without prior consultation with the Central Board and that in all cases action so authorized shall be reported to the members of the Central Board forthwith.



19. Save as otherwise provided in sections 17, 18 and 45, the Bank may not transact business which the Bank may not transact. 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 its own shares or 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, immovable property or documents of title relating thereto, or become the owner of immovable property, except so far as is necessary for its own business premises and residences for its officers and servants;
- (4) make \* 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.

20. 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 \* \* \* .

21. (1) The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall \* entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India and, in particular, shall 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 places where the Bank has no branches or agencies, and the Governor General in Council and Local Governments may hold at such places such balances as they may require.

(2) The Governor General in Council and each Local Government shall \* 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 \* \* \* .

(3) In the event of any failure to reach agreement on the conditions referred to in this section the Governor General in Council shall decide what the conditions shall be.

(4) Any agreement under this section to which the Governor General in Council is a party shall be laid before the Central Legislature as soon as may be after it is made.

22. (1) The Bank shall have the sole right to issue bank notes in British India, and may, for a period which shall be fixed by the Governor General in Council on the recommendation of the Central Board, 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 \* \* \*.

23. (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 34.

(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.

24. Bank notes shall be of the denominational values of five rupees, ten rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees and ten thousand rupees, unless otherwise directed by the Governor General in Council on the recommendation of the Central Board.

25. The design, form and material of bank notes shall be such as may be approved by the Governor General in Council after consideration of the recommendations made by the Central Board.

26. (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 on 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.

27. \* \* \* \* \*  
Re-issue of notes. The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

28. Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Governor General in Council or the Bank the value of Recovery of notes lost, stolen, mutilated or imperfect.

any lost, stolen, mutilated or imperfect currency note of the Government of India or 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 limitations subject to which the value of such currency notes or bank notes may be refunded as of grace.

29. The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of bank notes issued by it.

30. (1) If in the opinion of the Governor General in Council the Bank fails to carry out any of the obligations imposed on it by or under this Act, he may, by notification in the Gazette of India, declare the Central Board to be superseded, and thereafter the general superintendence and direction of the affairs of the Bank shall be entrusted to such agency as the Governor General in Council may determine, and such agency may exercise the powers and do all acts and things which may be exercised or done by the Central Board under this Act.

(2) When action is taken under this section the Governor General in Council shall cause a full report of the circumstances leading to such action, and of the action taken to be laid before the Central Legislature at the earliest possible opportunity and in any case within three months from the issue of the notification superseding the Board.

31. No person in British India other than the Bank or, as expressly authorized 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, including hundis, payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.

32. (1) Any person contravening the provisions of section 31 shall be punishable with fine which may extend 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.

33. (1) The assets of the Issue Department shall consist of gold coin, gold bullion, sterling 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 assets, not less than two-fifths shall consist of gold coin, gold bullion or sterling securities :

Provided that the amount of gold coin and gold bullion shall not at any time be less than forty crores of rupees in value.

(3) The remainder of the assets shall be held in rupee coin, Government of India rupee securities of any maturity and such bills of exchange

and promissory notes \* \* \* 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 17 or under section 18 :

Provided that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the assets or fifty crores of rupees, whichever amount is greater, or, with the previous sanction of the Governor General in Council, such amount plus a sum of ten crores of rupees.

(4) For the purposes of this section, gold coin and gold bullion shall be valued at 8.47512 grains of fine gold per rupee, rupee coin shall be valued at its face value, and securities shall be valued at the market rate for the time being obtaining.

(5) Of the gold coin and gold bullion held as assets, not less than seventeen-twentieths shall be held in British India, and all gold coin and gold bullion held as assets 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 treasury or in transit may be reckoned as part of the assets.

(6) For the purposes of this section, the sterling securities \* \* \* which may be held as part of the assets shall be securities of any of the following kinds payable in the currency of the United Kingdom, namely :—

- (a) balances at the credit of the Issue Department with the Bank of England ;
- (b) bills of exchange bearing two or more good signatures and drawn on and payable at any place in the United Kingdom and having a maturity not exceeding ninety days ;
- (c) Government securities of the United Kingdom maturing within five years \* \* :

Provided that, for a period of two years from the date on which this Chapter comes into force, \* any of such last mentioned securities may be securities maturing after five years, and the Bank may, at any time before the expiry of that period, dispose of such securities notwithstanding anything contained in section 17 \* \*

\* \* \*

34. (1) The liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and bank notes for the time being in circulation.

(2) For the purposes of this section, any currency note of the Government of India or bank note which has not been presented for payment within forty years from the 1st day of April following the date of its issue shall be deemed not to be in circulation, and the value thereof shall, notwithstanding anything contained in subsection (2) of section 23, be paid by the Issue Department to the Governor General in Council or the Banking Department, as the case may be ; but any such note, if subsequently presented for payment, shall be paid by the Banking Department, and any such payment in the case of a currency note of the Government of India shall be debited to the Governor General in Council.

35. On the date on which this Chapter comes into force the Issue Department shall take over from the Governor General in Council the liability for all the currency notes of the Government of India for the time being in circulation and the Governor General in Council shall transfer to the Issue Department gold coin, gold bullion, *sterling* securities \* \* \*, rupee coin and rupee securities to such aggregate amount as is equal to the total of the amount of the liability so transferred. The coin, bullion and securities shall be transferred in such proportion as to comply with the requirements of section 33 :

Provided that the total amount of the gold coin, gold bullion and *sterling* securities \* \* \* so transferred shall not be less than one-half of the whole amount transferred, and that the amount of rupee coin so transferred shall not exceed fifty crores of rupees :

*Provided further that the whole of the gold coin and gold bullion held by the Governor General in Council in the gold standard reserve and the paper currency reserve at the time of transfer shall be so transferred.*

36. (1) After the close of any financial year Method of dealing with in which the minimum fluctuations in rupee coin amount of rupee coin held assets. in the assets, as shown in any of the weekly accounts of the Issue Department for that year prescribed under sub-section (1) of section 53, is greater than fifty crores of rupees or one-sixth of the total amount of the assets as shown in that account, whichever may be the greater, the Bank may deliver to the Governor General in Council rupee coin up to the amount of such excess but not without his consent exceeding five crores of rupees, against payment of legal tender value in the form of bank notes, gold or securities :

Provided that if the Bank so desires and if the amount of gold coin, gold bullion and *sterling* securities \* \* \* in the assets does not at that time exceed one-half of the total assets, a proportion not exceeding two-fifths of such payment shall be in gold coin, gold bullion or such *sterling* securities \* \* \* as may be held as part of the assets under sub-section (6) of section 33.

(2) After the close of any financial year in which the maximum amount of rupee coin held in the assets, as so shown, is less than fifty crores of rupees or one-sixth of the total amount of the assets, as so shown, whichever may be the greater, the Governor General in Council shall deliver to the Bank rupee coin up to the amount of such deficiency, but not without its consent exceeding five crores of rupees, against payment of legal tender value.

37. (1) Notwithstanding anything contained in Suspension of assets the foregoing provisions, requirements. 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 as assets gold coin, gold bullion or *sterling* securities \* \* \* of less aggregate amount than that required by sub-section (2) of section 33 and, whilst the holding is so

reduced, the proviso to that sub-section shall cease to be operative :

*Provided that the gold coin and gold bullion held as such assets shall not be reduced below the amount specified in the proviso to sub-section (2) of section 33 so long as any sterling securities remain held as such assets.*

(2) In respect of any period during which the holding of gold coin, gold bullion and sterling 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 33 ; and 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 assets 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.

38. The Governor General in Council shall undertake not to re-issue any rupee coin delivered under section 36 nor to put into circulation any \* rupees, except through the Bank and as provided in that section ; 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.

39. (1) The Bank shall issue rupee coin on demand in exchange for bank notes and 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.

III of 1906.

(2) The Bank shall, in exchange for currency notes or bank notes of five rupees or upwards, supply currency notes or bank notes of lower value 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 \* \* \* supply such \* \* \* coins to the Bank on demand. If the Governor General in Council at any time fails to supply such coins, the Bank shall be released from its obligations to supply them to the public.

III of 1906.

40. The Bank shall sell, to any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and pays the purchase price in legal tender currency sterling for immediate delivery in London, at a rate not below one shilling and five pence and forty nine sixty-fourths of a penny for a rupee :

Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds.

41. The Bank shall buy, from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon,

sterling for immediate delivery in London, at a rate not higher than one shilling and six pence and three-sixteenths of a penny for a rupee :

Provided that no person shall be entitled to demand to sell an amount of sterling less than ten thousand pounds :

*Provided further that no person shall be entitled to receive payment unless the Bank is satisfied that payment of the sterling in London has been made.*

42. (1) Every bank included in the Second Schedule shall maintain

Cash reserves of scheduled banks to be kept with the Bank. \* \* with the \* Bank a balance the amount of which shall not at the close of business on any day be less than five per cent. of the demand liabilities and two per cent. of the time liabilities of such bank in India as shown in the return referred to in sub-section (2).

*Explanation.—For the purposes of this section liabilities shall not include the paid-up capital or the reserves, or any credit balance in the profit and loss account of the bank or the amount of any loan taken from the Reserve Bank.*

(2) Every scheduled bank shall send to the Governor General in Council and to the Bank a \* 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 business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, 1881, at the close of business on the next XXVI of working day; and such return shall be sent not later than three days after the date to which it relates :

*Provided that where the Bank is satisfied that the furnishing of a weekly return under this sub-section is impracticable in the case of any scheduled bank by reason of the geographical position of the bank and its branches, the Bank may require such bank to furnish in lieu of a weekly return a monthly return to be dispatched not later than fourteen days after the end of the month to which it relates giving the details specified in this sub-section in respect of such bank at the close of business for the month.*

(3) If at the close of business on any day before the day fixed for the next return, the balance held at the Bank by any scheduled bank is below the minimum prescribed in sub-section (1), such scheduled bank shall be liable to pay to the Bank in respect of each such day penal interest at a rate three per cent. above the bank rate on the amount by which the balance with the Bank falls short of the prescribed minimum, and if on the day fixed for the next return such balance is still below the prescribed minimum as disclosed by this return, the rates of penal interest shall be increased to a rate five per cent. above the bank rate in respect of that day and each subsequent day on which the balance held at the Bank at the close of business on that day is below the prescribed minimum.

(4) Any scheduled bank failing to comply with (5) the provisions of sub-section (2) shall be liable to pay to the Governor General in Council or to the Bank, as the case may be, or to each, a penalty of one hundred rupees for each day during which the failure continues.

(5) The penalties imposed by sub-sections (3) (6) and (4) shall be payable on demand made by the Bank, and in the event of a refusal by the defaulting bank to pay on such demand, may be levied by a direction of the principal Civil Court having jurisdiction in the area where an office of the defaulting bank is situated, such direction to be made only upon application made in this behalf to the Court by the Governor General in Council in the case of a failure to make a return under sub-section (2) to the Governor General in Council, or by the Bank with the previous sanction of the Governor General in Council in other cases.

(6) The Governor General in Council shall, by (7) notification in the Gazette of India, direct the inclusion in the Second Schedule of any bank not already so included which carries on the business of banking in British India and which—

(a) has a paid-up capital and reserves of an aggregate value of not less than five lakhs of rupees, and

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

11 of 1913.

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 reserve becomes at any time less than five lakhs of rupees, or which goes into liquidation or otherwise ceases to carry on banking business.

43. The Bank shall compile and shall 42A.

Publication of consolidated statement by the Bank. cause to be published each week a consolidated statement showing the aggregate of the amounts under each clause of sub-section (2) of section 42 exhibited in the returns received from scheduled banks under that section.

44. The Bank may require any provincial co- 42B.

Power to require co-operative banks. operative bank with which it has any transactions under section 17 to furnish the return referred to in sub-section (2) of section 42, and if it does so the provisions of sub-sections (4) and (5) of section 42 shall apply so far as may be to such co-operative bank as if it were a scheduled bank.

45. (1) The Bank shall enter into an agreement 43.

Agreement with the Imperial Bank. 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 fifteen years and thereafter until terminated after five years' notice on either side and shall further contain the provisions set forth in the Third Schedule:

Provided that the agreement shall be conditional on the maintenance of a sound financial position by the Imperial Bank and that if, in the opinion of the Central Board, the Imperial Bank has failed either to fulfil the conditions of the agreement or to maintain a sound financial position, the Central Board shall make a recommendation to the Governor General in Council, and the Governor General in Council, after making such further



*enquiry as he thinks fit, may issue instructions to the Imperial Bank with reference either to the agreement or to any matter which in his opinion involves the security of the Government monies or the assets of the Issue Department in the custody of the Imperial Bank, and in the event of the Imperial Bank disregarding such instructions may declare the agreement to be terminated.*

(2) *The agreement referred to in sub-section (1) shall, as soon as may be after it is made, be laid before the Central Legislature.*

## CHAPTER IV.

### GENERAL PROVISIONS.

**46.** *The Governor General in Council shall* **43A.**  
*Contribution by Govern- transfer to the Bank rupees*  
*or General in Council to securities of the value of*  
*the Reserve Fund. five crores of rupees to be*  
*allocated by the Bank to the Reserve Fund.*

**47.** *After making provision for bad and doubt- 44.*  
*ful debts, depreciation in*  
*Allocation of surplus. assets, contributions to*  
*staff and superannuation funds, and such other*  
*contingencies as are usually provided for by*  
*bankers, and after payment out of the net annual*  
*profits of a cumulative dividend at such rate not*  
*exceeding five per cent. per annum on the share*  
*capital as the Governor General in Council*  
*may fix at the time of the issue of shares, a*  
*portion of the surplus shall be allocated \* \* —*

\* \* \* \* \*  
 \* \* \* \* \*  
 \* \* \* *to the payment of an additional*  
*dividend to the shareholders calculated*  
*or the scale set forth in the Fourth*  
*Schedule and the balance of the surplus*  
*shall be paid to the Governor General*  
*in Council :*

Provided that *if at any time the Reserve Fund is less than the share capital, not less than fifty lakhs of rupees of the surplus, or the whole of the surplus if less than that amount, shall be allocated to the Reserve Fund.*

**48.** (1) *Notwithstanding anything contained in 44A.*  
*the Indian Income-tax*  
*Act, 1922, or any other XI of 1922.*  
*Exemption of Bank enactment for the time being*  
*from income-tax and in force relating to income-*  
*super tax and provision tax or super-tax, the Bank*  
*or deduction at source of shall not be liable to pay*  
*income-tax on dividends. income-tax or super-tax*  
*on any of its income. profits or gains :*

*Provided that nothing in this section shall affect the liability of any shareholder in respect of income-tax or super-tax.*

(2) *For the purposes of section 18 of the Indian Income-tax Act, 1922, and of any other relevant XI of 1922. provision of that Act relating to the levy and refund of income-tax any dividend paid under section 44 of this Act shall be deemed to be "Interest on Securities".*

**49.** *The Bank shall make public from time to 45.*  
*time the standard rate at*  
*Publication of bank which it is prepared to*  
*rate. buy or re-discount bills of*  
*exchange or other commercial paper eligible for*  
*purchase under this Act.*

**50. (1)** Not less than two auditors shall be <sup>46.</sup>  
 Auditors. elected and their remuneration fixed at the annual general meeting. The auditors may be shareholders, but no Director or other officer of the Bank shall be eligible during his continuance in office. Any auditor shall be eligible for re-election on quitting office.

(2) The first auditors of the Bank may be appointed by the Central Board before the first annual general meeting and, if so appointed, shall hold office only until that meeting. All auditors elected under this section shall severally be, and continue to act as, auditors until the first annual general meeting after their respective elections :

Provided that any casual vacancy in the office of any auditor elected under this section may be filled by the Central Board.

**51.** Without prejudice to anything contained <sup>47.</sup>  
 Appointment of special in section 50, the Gov-  
 auditors by Government. ernor General in Council may at any time appoint *the Auditor General* or such auditors as he thinks fit to examine and report upon the accounts of the Bank.

**52. (1)** Every auditor shall be supplied with <sup>48.</sup>  
 Powers and duties of a copy of the annual  
 auditors. 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 shareholders or to the Governor General in Council, as the case may be, 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 Central Board, whether it has been given and whether it is satisfactory. Any such report made to the shareholders shall be read, together with the report of the Central Board, at the annual general meeting.

**53. (1)** The Bank shall prepare and transmit <sup>49.</sup>  
 Returns. 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 Fifth 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 accounts signed by the Governor, the Deputy Governors and the

Chief Accounting Officer of the Bank, and certified by the auditors, together with a report by the Central Board on the working of the Bank throughout the year, and the Governor General in Council shall cause such accounts and report to be published in the Gazette of India.

(3) 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 statement showing the name, address and occupation of, and the number of shares held by, each shareholder of the Bank.

**54. (1) The Bank shall, at the earliest practicable date and in any case within three years from the date on which this Chapter comes into force, make to the Governor General in Council a report, with proposals, if it thinks fit, for legislation, on the following matters, namely:—**

- (a) the extension of the provisions of this Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking, and
- (b) the establishment of a Rural Credit Department of the Bank or the creation of other machinery for effecting a closer connection between agricultural enterprise and the operations of the Bank.

(2) When the Bank is of opinion that the international monetary position has become sufficiently clear and stable to make it possible to determine what will be suitable as a permanent basis for the Indian monetary system and to frame permanent measures for a monetary standard it shall report its views to the Governor General in Council.

**55. (1) The Local Board of any area may at any time require any shareholder who is registered on the register for that area to furnish to the**

**Power to require declaration as to ownership of registered shares.** Local Board within a specified time, not being less than thirty days, a declaration, in such form as the Central Board may by regulations prescribe, giving particulars of all shares on the said register of which he is the owner.

(2) If it appears from such declaration that any shareholder is not the owner of any shares which are registered in his name, the Local Board may amend the register accordingly.

(3) If any person required to make a declaration under sub-section (1) fails to make such declaration within the specified time, the Local Board may make an entry against his name in the register recording such failure and directing that he shall have no right to vote, either under section 9 or section 14, by reason of the shares registered in his name on that register.

(4) Whoever makes a false statement in any declaration furnished by him under sub-section (1) shall be deemed to have committed the offence of giving false evidence defined in section 191 of the Indian Penal Code, and shall be punishable under the second paragraph of section 193 of that Code. **XLV of 1860,**

(5) Until Local Boards have been constituted under section 9 the powers of a Local Board under this section shall be exercised by the Central Board in respect of any area for which a Local Board has not been constituted.

**56. (1)** Nothing in the Indian Companies Act, 1913, shall apply to the Liquidation of the Bank. Bank, and the Bank shall not be placed in liquidation save *by order* of the Governor General in Council and in such manner as he may direct.

(2) In such event the Reserve Fund and surplus assets, if any, of the Bank shall be divided between the Governor General in Council and the shareholders in the proportion of seventy-five per cent. and twenty-five per cent., respectively :

*Provided that the total amount payable to any shareholder under this section shall not exceed the paid-up value of the shares held by him by more than one per cent. for each year after the commencement of this Act subject to a maximum of twenty-five per cent.*

**57. (1)** The Central 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 holding and conduct of elections under this Act, including, if the Central Board thinks fit, provisions for the holding of any elections according to the principle of proportional representation by means of the single transferable vote ;
- (b) the final decision of doubts or disputes regarding the qualifications of candidates for election or regarding the validity of elections ;
- (c) the maintenance of the share register, the manner in which and the conditions subject to which shares may be held and transferred, and, generally, all matters relating to the rights and duties of shareholders ;
- (d) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which votes may be exercised ;
- (e) the manner in which notices may be served on behalf of the Bank upon shareholders or other persons ;
- (f) the manner in which the business of the Central Board shall be transacted, and the procedure to be followed at meetings thereof ;
- (g) the conduct of business of Local Boards and the delegation to such Boards of powers and functions ;
- (h) the delegation of powers and functions of the Central Board to the Governor, or to Deputy Governors, Directors or officers of the Bank ;
- (i) the formation of Committees of the Central Board, the delegation of powers and functions of the Central Board to such Committees, and the conduct of business in such Committees ;
- (j) the constitution and management of staff and superannuation funds for the officers and servants of the Bank ;

- (k) the manner and form in which contracts binding on the Bank may be executed ;
- (l) the provision of an official seal of the Bank and the manner and effect of its use ;
- (m) the manner and form in which the balance-sheet of the Bank shall be drawn up, and in which the accounts shall be maintained ;
- (n) *the remuneration of Directors of the Bank.* (mm)
- (o) *the relations of the scheduled banks with the Bank and the returns to be submitted by the scheduled banks to the Bank ;* (mmm)
- (p) *the regulation of clearing-houses for the scheduled banks ;* (mmmm)
- (q) 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 (n)
- (r) generally, for the efficient conduct of the business of the Bank. (o)

(3) *Copies of all regulations made under this section shall be available to the public on payment.*

58. In the Indian Coinage Act, 1906, for section III of 1906. section 11 the following section 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 not be legal tender in British India in payment or on account, but such coins shall be received by the Reserve Bank of India at its offices, branches and agencies in India at the bullion value of such coins calculated at the rate of 8.47512 grains troy of fine gold per rupee.”

59. The Indian Paper Currency Act, 1923, the Indian Paper Currency (Amendment) Act, 1923, the Indian Paper Currency (Amendment) Act, 1925, and the Currency Act, 1927, are hereby repealed.

X of 1923.  
54.  
XXXVI of 1923.  
II of 1926.  
IV of 1927.

## THE FIRST SCHEDULE.

(See section 4.)

## AREAS SERVED BY THE VARIOUS SHARE REGISTERS.

- I. The WESTERN AREA, served by the BOMBAY Register, shall consist of—  
the Bombay Presidency including Sind, the Central Provinces, Berar, Hyderabad, Baroda, Khairpur, the Western India States, the Central India States (including Makrai but excluding Rewah and other States of Bundelkhand and Baghelkhand), the Gujerat States, Kolhapur and the Deccan States.
- II. The EASTERN AREA, served by the CALCUTTA Register, shall consist of—  
the Bengal Presidency, Bihar and Orissa, Assam, Sikkim, Manipur, Cooch-Bihar, Tripura, the Eastern States, Rewah and other States of Bundelkhand and Baghelkhand, and the Khasi States.
- III. The NORTHERN AREA, served by the DELHI Register, shall consist of—  
the United Provinces, Delhi, the Punjab, the North-West Frontier Province, Ajmer-Merwara, Baluchistan, Kashmir, the Punjab States excluding Khairpur, the Simla Hill States, Dujana, Pataudi, Kalsia, Rampur, Tehri-Garhwal, Benares, the Rajputana States including Palanpur and Danta, Gwalior, Khaniadhana, Kalat, Las Bela, Hunza, Nagir, Amb, Chitral, Dir, Phulera and Swat.
- IV. The SOUTHERN AREA, served by the MADRAS Register, shall consist of—  
the Madras Presidency, Coorg, Mysore and the Madras States.
- V. The BURMA AREA, served by the RANGOON Register, shall consist of—  
Burma, the Andaman and Nicobar Islands, Bawlake, Kantarawadi, and Kyebogyi.

## THE SECOND SCHEDULE.

[See section 42 and section 2 (e).]

## SCHEDULED BANKS.

Ajodhia Bank, Fyzabad.	Jalpaiguri Banking and Trading Corporation.
Allahabad Bank.	Karnani Industrial Bank.
American Express Company Incorporated.	* * *
Banco Nacional Ultramarino.	Lloyds Bank.
Bangalore Bank.	* * *
Bank of Baroda.	Mercantile Bank of India.
Bank of Behar.	Mitsui Bank, Bombay.
Bank of Chettinad, Madras.	Muffassil Bank, Gorakhpur.
Bank of Hindustan, Madras.	* * *
Bank of India, Bombay.	* * *
* * *	National Bank of India.
Bank of Mysore.	National City Bank of New York.
Bank of Taiwan.	Nederlandsche Indische Handelsbank.
Bank of Upper Burma.	Nederlandsche Handel-Maatschappij.
* * *	Nedungadi Bank, Calicut.
Benares Bank.	Ondh Commercial Bank.
Bengal Central Bank.	Peoples' Bank of Northern India.
* * *	* * *
Bhagwan Das & Co., Dehra Dun.	P. and O. Banking Corporation.
* * *	* * *
* * *	Punjab and Sind Bank, Amritsar.
Canara Bank.	Punjab Co-operative Bank, Amritsar.
* * *	Punjab National Bank, Lahore.
Central Bank of India.	* * *
Chartered Bank of India, Australia and China.	* * *
* * *	* * *
* * *	Simla Banking and Industrial Company.
Comptoir National d'Escompte de Paris.	* * *
Eastern Bank.	* * *
* * *	Thomas Cook & Sons.
Grindlay and Company.	* * *
Hongkong and Shanghai Banking Corporation.	Travancore National Bank, Tiruvalla.
Imperial Bank of India.	Union Bank of India, Bombay.
Imperial Bank of Persia.	U. Rai Gyaw Thoo and Co., Akyab.
Indian Bank, Madras.	Yokohama Specie Bank.
Industrial Bank of Western India, Ahmedabad.	

## THE THIRD SCHEDULE.

(See section 45.)

*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 which was in existence at the commencement of the Reserve Bank of India Act, 1933, and there is no branch of the Banking Department of the Reserve Bank of India.

2. In consideration of the performance at the places referred to in clause 1 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 \* \* \* before the coming into force of the Reserve Bank of India Act, 1933, the Reserve Bank of India shall pay to the Imperial Bank of India as remuneration a sum which shall be for the first ten years during which this agreement is in force a commission calculated at one-sixteenth of one per cent. on the first 250 crores and one thirty-second of one per cent. on the remainder of 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. At the close of the said ten years the remuneration to be paid by the Reserve Bank of India to the Imperial Bank of India for the performance of these functions shall be revised and the remuneration for the ensuing five years shall be determined on the basis of the actual cost to the Imperial Bank of India, as ascertained by expert accounting investigation, of performing the said functions. The remuneration so determined shall thereafter be subject to revision in like manner at the end of each period of five years so long as this agreement remains in force. If any dispute arises between the Reserve Bank of India and the Imperial Bank of India as to the amount of the said remuneration the matter shall be referred for final decision to the Governor General in Council who may require from the Imperial Bank such information and may order such accounting investigation as he thinks fit.

3. In consideration of the maintenance by the Imperial Bank of India of branches not less in number than those existing at the commencement of the Reserve Bank of India Act, 1933, the Reserve Bank of India shall, until the expiry of fifteen years from the coming into force of this agreement, make to the Imperial Bank of India the following payments, namely:—

- (a) during the first five years of this agreement—nine lakhs of rupees per annum ;
- (b) during the next five years of the agreement—six lakhs of rupees per annum ; and
- (c) during the next five years of the agreement—four lakhs of rupees per annum ; \*
- (d) \* \* \* \* \*

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 FOURTH SCHEDULE.

(See section 47.)

*Scale of additional dividend payable to shareholders.*

A. If the maximum rate of dividend fixed under section 47 is five per centum and so long as the share capital of the Bank is five crores of rupees—

- (1) if the surplus does not exceed four crores of rupees—Nil ;
- (2) if the surplus exceeds four crores of rupees—
  - (a) out of such excess up to the first one and a half crores of rupees—a fraction equal to one-sixtieth ;
  - (b) out of each successive additional excess up to one and a half crores of rupees—one-half of the fraction payable out of the next previous one and a half crores of excess :

Provided that the additional dividend shall be a multiple of one-eighth of one per cent. on the share capital, the amount of the surplus allocated thereto being rounded up or down to the nearest one-eighth of one per cent. on the share capital.

B. If the maximum rate of dividend fixed under section 47 is below five per centum, the said fraction of one-sixtieth shall be increased in the ratio of the difference between six and the fixed rate to unity.

C. When the original share capital of the Bank has been increased or reduced, the said fraction of one-sixtieth shall be increased or diminished in proportion to the increase or reduction of the share capital.

## THE FIFTH SCHEDULE.

(See section 53.)

## RESERVE BANK OF INDIA.

An Account pursuant to the Reserve Bank of India Act, 1933, for the week ending on the \_\_\_\_\_ day of \_\_\_\_\_ .

## ISSUE DEPARTMENT.

<i>Liabilities.</i>	Rs.	<i>Assets.</i>	Rs.
Bank Notes held in the Banking Department . . . . .		A. Gold coin and bullion—	
Bank Notes in circulation . . . . .		(a) held in India . . . . .	
Total Bank Notes issued . . . . .		(b) held outside India . . . . .	
Government of India Notes in circulation . . . . .		Sterling Securities * * * . . . . .	
		Total of A . . . . .	
		B. Rupee coin . . . . .	
		Government of India rupee securities . . . . .	
		Internal bills of exchange and other commercial paper . . . . .	
Total Liabilities . . . . .		Total Assets . . . . .	

Ratio of total of A to liabilities per cent.

Dated the \_\_\_\_\_ day of \_\_\_\_\_ 19 .

## BANKING DEPARTMENT.

<i>Liabilities.</i>	Rs.	<i>Assets.</i>	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 ASSEMBLY  
DEPARTMENT.

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Report of the Joint Committee on  
the Bill to constitute a Reserve  
Bank of India, with the Bill as  
amended.