

EAST AFR. PROT.
27676

27676
REC'D
JUN 20

A. G. 447
DURING

1920

30th April

Last previous Paper.
27691/19

CURRENCY NOTE GUARANTEE FUND

Trans letter from Treasurer re and re depreciation of securities. Suggests £50,000 be transferred to Prot. A/C on behalf of Currency Commissioners

Mr. Begganley

I am sorry this has not been sent or before.

Para. 4 of the Treasurer's memo implies that he thought that the 6 lakhs which had been or were being issued were being paid for by making payments on the part of the banks to the account of the Currency Commissioners in London.

I have spoken to Mr. Willis of C.A. office, however, and he confirms my belief that the payments by the banks on account of currency issued locally have

And 8/10 - 24 June 20

Last previous Paper.

9 Except the 1/2
received for
of 1/2 of the
Currency
of the
C.

have been credited to the Post. account.
Therefore, the 5 lakhs in question have
already been used against payments made
in this way, the £50,000 has in effect
been repaid to the Post. by the Currency
Commissioners, forming part of the
£55,000 referred to in Gov/29497.

The recommendation that the
sum should not be paid over from
the funds of the Currency Commissioners
presumably ~~only~~ ~~holder~~ was based
on the assumption that these funds had
been increased as a result of the
issue of the Gov. Thus, as has been
stated above, ~~the~~ ~~case~~, and
all that is necessary, I think, is
for the £50,000 to be left to the
credit of the Post account when the
~~various~~ ~~accounts~~ accounts are finally
adjusted and the Currency Commissioners
business handed over to the new
Currency Board.

2 Reply that as the Gov. is now
issued (as 24/4/47 show), payments of
account of notes currency issued locally
have

have been credited to the Prot. account.

Therefore, the 5 lakhs in question have already been used against payments made in this way, the £20,000 now in effect has been repaid to the Prot. by the Currency Commissioners, forming part of the £55,000 referred to in Gov/29997.

The recommendation that the amount should not be paid over from the funds of the Currency Commissioners presumably ~~only held~~ was based on the assumption that these funds had been ~~used~~ as the result of the ~~operation~~ of the ~~Commissioners~~ as has been ~~stated~~ in ~~the~~ ~~case~~ and all that is necessary, I think, is for the £20,000 to be left to the credit of the Prot. account when the ~~Commissioners~~ accounts are finally audited and the Currency Commissioners' money handed over to the new Currency Board.

I reply that as the ⁰⁰⁰ Gov. is now ~~in~~ ~~the~~ ~~case~~ (see Gov/29997 above), payments in ~~the~~ ~~amount~~ of ~~the~~ ~~currency~~ would be ~~made~~ ~~from~~ ~~the~~ ~~Prot.~~ ~~account~~

9 Except the ~~the~~ ~~amount~~ ~~of~~ ~~the~~ ~~Prot.~~ ~~account~~ ~~which~~ ~~is~~ ~~now~~ ~~in~~ ~~the~~ ~~hands~~ ~~of~~ ~~the~~ ~~Currency~~ ~~Commissioners~~ ~~and~~ ~~is~~ ~~not~~ ~~to~~ ~~be~~ ~~paid~~ ~~over~~ ~~to~~ ~~the~~ ~~new~~ ~~Currency~~ ~~Board~~

have been credited to the Prot. funds ⁵⁵⁶ and
not those of the Commissioners: and as
in last para. of above minute.

C. J. J. 23.6.20.

W.S.S. 23.6.20

~~Stone~~

W. J. J.

AFRICA PROTECTORATE,
NO. 447

557

C O
27676

GOVERNMENT HOUSE,
NAIROBI. (REL) 5 JUN 20
BRITISH EAST AFRICA

30 April, 1920.

My Lord,

God 56915

With reference to my despatch No.861 of the 3rd September last, reporting the position of the coin portion of the Note Guarantee Fund, I have the honour to forward for Your Lordship's information, a copy of a letter from the Treasurer, with enclosures, on the subject of the Note Guarantee Reserve and the depreciation of Securities:

2. I support the suggestion in paragraph 4 of Mr. Kempe's letter that the Crown Agents be instructed to transfer to the Protectorate Account the sum of 200,000 held by them on behalf of the Currency Commissioners, and have the honour to request that Your Lordship will issue the necessary instructions.

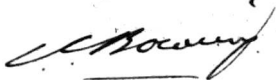
3. I propose to reply shortly to Your Lordship's Circular despatch of 22nd November 1919 on the subject of the depreciation of the sterling securities of the Currency Note Guarantee Fund, and to deal, at the same time

RIGHT HONOURABLE
VISCOUNT MILNER, P.C., G.C.E., G.C.M.G., &c., &c.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET,
LONDON, S.W.

558

time, with the other portions of the Fund, the values of which are fixed in Sterling.

I have the honour to be,
Your Lordship's
humble, obedient servant,



ACTING GOVERNOR.

447830 4/1920

C.O
27676

The Treasury,
P. O. Box No. 68,
Nairobi, 8th April 1920.

559

Hon'ble Ag. Chief Secretary.

CURRENCY Note Reserve.
REFERENCE FOR £.207.5

In 1916 5 lakhs of Rupees were advanced from Protectorate Surplus balances to the Currency Commissioners to supplement the coin portion of the Note Guarantee Fund, which was less than the requisite proportion of the total note issue. This was approved by the Secretary of State in a telegram dated the 16th May 1916. When the coin portion of the fund again rose above the requisite amount the 5 lakhs were left with the Currency Commissioners to meet emergencies.

2. In December last the Auditor reported that the invested portion of the Note Guarantee Fund (including the Depreciation Fund) was less than the amount of the fund taken for investment by Ex. NS1974-45, and pointed out that section 20(5) of the Currency Order in Council 1920, which amount should be paid out of the local revenue of the Protectorate. He suggested that if this were done the 5 lakhs lent from the Protectorate surplus balances should be returned. He did not however take into account the depreciation of the sterling investments in relation to the Rupee liabilities. The Auditor's suggestion was not carried out in view of the fact that the Protectorate's financial position is not such as to admit of a final payment of the sum mentioned and it was considered advisable to leave the full 5 lakhs of coin with the Currency Commissioners.

3. Since the Auditor's report was received the Rupee has been stabilized at 2s/- so that a more accurate statement of the deficiency can be made and a communication with regard to the establishment of a depreciation fund for investments generally has been received from the Secretary of State. I am addressing a separate communication to you on this subject pointing out that the Protectorate is not at present in a position to make any contribution to such a fund from its revenues and suggesting that if any profit is made on the sale of Indian Rupees by the Government the proceeds should be in the first place devoted to meeting this depreciation.

4. The five lakhs of Rupees advanced from Surplus balances are now being drawn out by the Banks to meet the shortage of coin, either as payment in London to the account of the Currency Commissioners with the Crown Agents or in exchange for notes which have been paid for in this manner. The five lakhs are therefore represented at the present time by £50,000 held by the Crown Agents on behalf of the Currency Commissioners. As this sum so largely fulfils the function for which it was intended, namely supplementing the coin portion of Fund, and as the Protectorate

is heavily overdrawn with the Crown Agents and requires the money I suggest that the Secretary of State should be asked if the Crown Agents may be instructed to transfer it to the Protectorate account. His decision will of course depend upon his view of the suggestion that the Protectorate should not at the present time attempt to make good any part of the depreciation of its sterling securities out of its revenue or by increasing its overdraft.

3. I attach the reports of the Currency Commissioners and the Auditor on the opinion expressed in this case, and a communication referred to by the former. These documents have already been submitted to the latter by opinion.

ed/ V. A. Kemp.

Treasurer.

Mombasa, 29th March 1920.

561

The Hon. Treasurer,
Nairobi.

I am directed by the Currency Commissioners to acknowledge receipt of your memo No. 160/8/22
160/10/188 of the 20th instant, covering draft sent to the Hon. Ag. Chief Secretary, on the subject of the 5 lacs advanced by the Protectorate and, in reply, to say, if the original adjustment of the deficiency in the invested portion of the Note Guarantee Fund which was made in December 1917 at the Auditor's request and to which I referred in my letter N.F.No. 86/80 of 23rd January 1920 para. 4 was correct, that the still smaller that the 6 lacs should form part of the Depreciation Fund. At the same time they realize that the Protectorate's financial position is not now such as to admit of the final payment of this amount or of the further amount asked for by the Auditor in his letter No. 864/87 of 29th December 1919, especially as in the latter case the amount of the deficiency is now increased owing to further fall in the value of the securities.

The Commissioners would have been glad to have submitted to the Hon. Chief Secretary together with their recommendations a further draft for the purpose of the further 6 lacs.

The Commissioners have no objection to the proposal regarding the transfer of the 5 lacs - in the form of £ 50,000, to the Treasury for the credit of the Protectorate account but I do point out that at present only £ 40,000 has been paid by the Bank in London to the Treasury on account of silver issued locally.

Yours faithfully,
Secretary.

To the Hon. Treasurer, Nairobi.

AUDIT OFFICE,

NAIROBI.

22nd March, 1930.

562

Hon'ble Treasurer,

Nairobi.

The situation would appear to be sufficiently serious. According to the last statement of the Currency Commissioners the amount of notes in circulation on the 10th March - Rs. 8,368,000.

To cover this there are:

A. Invested portion	4,802,880
B. Cash	1,264,097
C. Securities Depreciation Fund	<u>210,820</u>
	6,877,797

or a shortage to be made up of Rs. 2,297,213. If the demand of the National Bank that they be allowed to export Indian Rupees to India to the extent of its borrowing on the 11th February be acceded to (a sum which I understand amounts to some 24 lacs) there would not appear to be much money to come from the sale of Indian Rupees. Perhaps the Imperial Government would issue a loan to cover the depreciation.

sd/- H. S. S. BARKER.

AUDITOR.

190.

Hon'ble
The Treasurer,
Nairobi.

563

Ref Your 160/10/121a of 17th January 1920.

I am directed by the Currency Commissioners to acknowledge receipt of your minute under reference covering the Acting Auditor's letter No. 384/87 of the 2nd ultimo, on the subject of the depreciation of securities forming the invested portion of the Note Guarantee Fund and, in reply, to inform you that we agree in principle to the proposed adjustment.

I am, however, to observe that, while, on the one hand, the Commissioners are of opinion that the deficit of Rs. 31,974.43 whatever may be the corresponding figure at the date on which the payment is made) should now be paid from Revenue under Section 20 (8) of the Currency Order in Council 1905, they do, on the other hand, consider themselves justified in agreeing at the present time, to a refund of the advance of Rs. 5,00,000. There have recently been large drawings of silver by the Banks and these are likely to continue and if the proposal to lodge Indian Re. 1 notes in the coin portion, in exchange for silver sent to the Banks, goes through, the silver reserve will be considerably depleted. Even were the repayment of the Rs. 5,00,000 to be made in the Protectorate Currency notes the Commission would have to find cover in coin for an additional Rs. 2,50,000. Actually, no more coin in reserve than they now possess.

I am to invite your attention to the following statement of the position of the coin portion at date to illustrate the Commissioners' wish to defer repayment of the Rs. 5,00,000 presently:-

Notes in circulation	Rs. 91,23,700
Whereof one half	45,66,500

Actual amount of Coin portion	
o/a Note Guarantee Fund	Rs. 49,14,497.31
Gold and Silver	1,44,600.00
Exchange <u>Depreciation</u>	1,50,000.00
	Rs. 52,09,097.31
or a surplus of	Rs. 38,09,097

SUMMARY

Nombasa.

London.

Rs. 6,30,000.00	Rs. 26,75,000
19,04,097.31	
Rs. 25,34,097.31	Rs. 26,75,000
	25,34,097.31
	Rs. 52,09,097.31

Returning to the Acting Auditor's letter I am to say that the Commissioners regard the excess shown in the second statement as purely fictitious in as much as the present value of investment is not their real value owing to the rate of exchange. However, the coin portion is shown on paper to have a considerable greater value than that, which, for practical purposes, it actually possesses.

I am in this connection to observe that the origin of this showing how the note circulation is secured in relation to the depreciation of the securities forming the invested portion of the Note Guarantee Fund is somewhat obscure but it does, it appears to have originated in the Auditor's letter No. 384/87 of the 30th June 1917 addressed to yourself.

Therein the Auditor invites attention to a deficit of Rs.7,12,553 between the face value of the notes in circulation and the present value of investments plus the coin portion and the Depreciation Fund together and, allowing for the Rs.5,00,000 advanced by you asks that the balance of the deficiency viz. Rs.2,12,553 be made good "in accordance with section 20 (3) of the Currency Order in Council 1905".

5. In the Commissioners' opinion this is an erroneous construction of the provisions of the sub-section quoted which deals specifically with the depreciation of securities, in relation to the amount of coin taken for investment, only. If, however, the subsection is capable of carrying the construction placed upon it by the Auditor then they consider that, when the payment of Rs.2,12,553 was made from revenue, the Rs.5,00,000 became a final payment and no longer an advance vide para 2 of my memo No. 36/66 of the 8th April 1918. If not, then the Auditor's request for the adjustment of Rs.2,12,553 was in error and it is because they adhere to this view that, as I have stated above, they agree to refund to you the Rs.5,00,000 when it appears practicable to do so.

6. I am to request the favour of your comments on the foregoing paragraphs 4 and 5 as it appears to the Commissioners that there has, in the past, been some confusion of thought in these payments from revenue.

sd/- FRANK V. HODGSON,
Secretary
to the Currency Commissioners.

Ref 27676/20
S.M.

18

29 June 1929

I have the pleasure to acknowledge receipt of your despatch no. 447

of the 30th of April, on the subject of the transmitting a

copy of a letter from the Treasurer regarding the Currency Note Guarantee Fund.

2. Your recommendation that

the ~~5 lakhs of rupees~~ a sum of 5 lakhs of rupees made to

the Currency Commissioners in 1916 should now be

liquidated by ~~a sum~~ the transfer of £80,000 from the funds held by the C.A.

DRAFT.

P. 898
A.G.

MINUTE.

- Mr. Jaffer 24.6.29
- Mr. Parkinson H. G. 20
- Mr. Kelland 20
- Mr. Grindle
- Mr. H. Lambert.
- Sir H. Read.
- Sir G. Fiddes.
- Col. Amery.
- Lord Milner.

for the benefit of
the Currency Commission &
the Post account was, I
assume, based on the
assumption that the funds

of the Currency Commission had

been repaid by the sterling

payments made in London by

the Bank in return for currency

issued.

I think, however, from your

let No. 316 of the 16th of June, (2999)

that you are now aware that

these payments have been credited

to the Post account & not to

that of the Currency Commission?

The advance has in question has,

therefore, in effect been repaid, and

I consider that it will only be

necessary

necessary, when the accounts are
finally adjusted and the
money to the credit of the
& the Currency Commission
currency note account & handed

over to the Currency Board,

to leave £50,000 of the

money to the credit of the Post

account in final settlement

of the advance.

I have etc.

(Signed) MILNER

DRAFT.

MINUTE.

- Mr. Milne
- Mr. Lambert
- Mr. Read
- Mr. Fildes
- Mr. Glegg
- Mr. Milner