

**SALE OF FOREIGN BONDS OR SECURITIES  
IN THE UNITED STATES**

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**HEARINGS  
BEFORE THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE**

**SEVENTY-SECOND CONGRESS**

**FIRST SESSION**

**PURSUANT TO**

**S. Res. 19**

**A RESOLUTION AUTHORIZING THE FINANCE COMMITTEE  
OF THE SENATE TO INVESTIGATE THE SALE, FLOTA-  
TION, AND ALLOCATION BY BANKS, BANKING  
INSTITUTIONS, CORPORATIONS, OR INDIVID-  
UALS OF FOREIGN BONDS OR SECURI-  
TIES IN THE UNITED STATES**

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**PART 3**

**JANUARY 8, 11, 12, 13, 14, AND 15, 1932**

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# SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

FRIDAY, JANUARY 8, 1932

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on yesterday, in the committee hearing room in the Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Shortridge, Reed, Couzens, Thomas of Idaho, Jones, Harrison, King, George, Connally, and Gore.

Present also: Senator Johnson.

The CHAIRMAN. The committee will come to order.

Senator JOHNSON. Mr. Chairman, before you proceed with the testimony may I say that in the early days of this investigation something was said by me about a moratorium for Ireland. It was a passing remark in a little colloquy that was more or less of no significance, but I have a letter from the Envoy Extraordinary and Minister Plenipotentiary of the Irish Free State, in which he says "The Irish Free State has never asked for a moratorium."

And he asks that the particular remark be corrected. Therefore, Mr. Chairman, I ask that his letter be placed in the record in order that no inaccuracy, even involuntarily or unwittingly spoken, may occur.

The CHAIRMAN. It will be printed in the record at this point.

Senator JOHNSON. I thank you.

LEGATION OF THE IRISH FREE STATE,  
*Washington, D. C., January 6, 1932.*

HON. HIRAM W. JOHNSON,  
*United States Senate, Washington, D. C.*

MY DEAR SENATOR JOHNSON: On reading through the report of the hearings before the Committee on Finance of the United States Senate for December 18, 1931, I was much surprised to learn that in reply to a query by Senator Barkley you stated that Ireland "asked England for a moratorium and was declined." I do not know on what authority you made this statement but I can assure you that no foundation for it exists. My Government has not asked England or any other country for a moratorium for the very good reason that our budgetary conditions are sound. The Irish Free State has no war debt obligations. Her capital liabilities are comparatively small and, as Mr. Charles E. Mitchell pointed out to you, "she has enjoyed one of the finest positions of credit" in this country.

I shall esteem it a favor if you will be good enough to bring this rectification to the notice of the Committee on Finance as I am sure you will be only too anxious to do justice to a country that has so much in common with the United States of America.

I am, my dear Senator Johnson,  
Very truly yours,

M. MACWHITE,  
*Envoy Extraordinary and Minister Plenipotentiary.*

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TESTIMONY OF FREDERICK STRAUSS, OF J. & W. SELIGMAN & CO.,  
NEW YORK CITY

(The witness was duly sworn by the chairman of the committee.)

The CHAIRMAN. Mr. Strauss, whom do you represent?

Mr. STRAUSS. J. & W. Seligman & Co., New York.

The CHAIRMAN. Your house has dealt quite extensively in foreign loans, I take it?

Mr. STRAUSS. Our house has dealt to some extent in foreign loans, but not as extensively perhaps as some other houses.

The CHAIRMAN. Do you have with you a record of all those foreign loans?

Mr. STRAUSS. We have it here, yes, Mr. Chairman.

The CHAIRMAN. Senator Johnson, you may proceed.

Senator JOHNSON. Mr. Strauss, if you have a statement of the foreign loans that you have made we would like to take that and insert it in the record first.

Mr. STRAUSS. We will be glad to furnish such a statement to you, but first I might give you a summary, if you wish.

Senator JOHNSON. If you have a copy of your statement that could be given to the committee reporter and be inserted in the record, I should be glad.

Mr. STRAUSS. I will turn these over to you.

Senator JOHNSON. I do not want to take the only one you have, if that is the fact.

Mr. STRAUSS. Oh, no. We have duplicates.

Senator JOHNSON. All right. I thank you.

Mr. STRAUSS. We have here every one of the foreign loans we were connected with, in detail, and also a summary.

The CHAIRMAN. Have you copies of those statements, Mr. Strauss?

Mr. STRAUSS. Oh, yes.

The CHAIRMAN. Just furnish them to the committee reporter and they may be made a part of the record at the end of your testimony.

Mr. STRAUSS. Very well.

Senator JOHNSON. I am now looking at the summary which you have furnished the committee, if you please, for the statement that I now interrogate you about: I see that there were 13 issues originated by your establishment.

Mr. STRAUSS. That is correct.

Senator JOHNSON. Now if you will follow me, please, Mr. Strauss.

Mr. STRAUSS. Senator Johnson, do you wish me to answer each time that it is correct?

Senator JOHNSON. Yes, I will put the query in the form of a question, and will do it as rapidly as possible if you have no objection.

Mr. STRAUSS. Oh, certainly.

Senator JOHNSON. In your summary furnished for the committee you have under "Business Originated" 13 issues, the principal amount of which were \$144,958,000, and I will now use round numbers only, showing \$6,000,000 retired by sinking fund, with principal amount now outstanding \$138,000,000, and the total gross profit of J. & W. Seligman & Co. being \$1,003,192.51.

Mr. STRAUSS. Yes.

Senator JOHNSON. You were the members of the original group, I see by this summary, in 11 different instances, the principal amount being \$83,000,000, of which there has been retired by sinking fund or total redemption \$63,000,000 in round numbers, and leaving principal amount now outstanding \$19,000,000, with a total gross profit to J. & W. Seligman & Co. of \$116,371.15. Is that correct?

Mr. STRAUSS. That is correct. And may I say this at this point?

Senator JOHNSON. All right.

Mr. STRAUSS. When we say we were members of the original groups that means members of groups which were led by other houses than ourselves and we merely participated as original members along with them.

Senator JOHNSON. That is my understanding of the situation. But in 13 instances, as shown by this summary, you yourselves were the original sponsors of the securities.

Mr. STRAUSS. Yes.

Senator JOHNSON. And in 11 instances you were yourselves members in a secondary capacity along with groups handling securities sponsored by others.

Mr. STRAUSS. That is correct.

Senator JOHNSON. In addition to that you appeared as "Members of Appearing Group" in the case of issuance of securities in connection with 17 issues; is that correct?

Mr. STRAUSS. That is correct also.

Senator JOHNSON. The principal amount of which loan was \$2,288,494,000, and from which your total gross profits were \$201,702.01.

Mr. STRAUSS. That is correct also.

Senator JOHNSON. The total amount of your profits, therefore, as shown by your summary, was \$1,321,265.67, and that was upon issues of bonds or securities included in the three categories? That is, in the case of issues where you appeared as the sponsor, and also as a member of the original group, and also as a subsidiary of the original group, the principal amount of which issues in round numbers was \$1,516,000,000. Is that correct?

Mr. STRAUSS. That is correct. Of course your question implies the situation, but I want to make it entirely clear, if I may.

Senator JOHNSON. You should do so in each instance, please, for if you desire to make any explanation I will be glad to have you take an opportunity to do so.

Mr. STRAUSS. That our interest in that principal amount of \$1,288,494,000 of securities was a very much smaller sum than that, quite naturally.

Senator JOHNSON. From the testimony we have heretofore taken, I think that would be obvious.

Mr. STRAUSS. All right, if that is understood.

Senator JOHNSON. Now, these issues were constituted as follows: In the business originated by you in Latin America there was a total of \$128,233,000. Is that correct?

Mr. STRAUSS. That is correct.

Senator JOHNSON. Of which you were the original group in \$22,000,000?

Mr. STRAUSS. No; and may I explain that?

Senator JOHNSON. Yes; I will be glad for you to do so.

Mr. STRAUSS. The business originated by us aggregated, in round numbers, \$128,000,000. You understand that I am skipping the odd figures now.

Senator JOHNSON. All right.

Mr. STRAUSS. We participated in business originated by others to the extent of \$22,000,000. That is, that was not our participation but the total group was \$22,000,000, and we appeared in a subordinate capacity in the manner you explained before, in Latin America in issues aggregating \$77,000,000. Or, in other words, a total of \$227,000,000 in Latin America. Then, the next column is Europe, and then you will see Japan.

Senator JOHNSON. Now, in Europe the aggregate amount was \$1,099,000,000?

Mr. STRAUSS. Comprising all three categories; yes.

Senator JOHNSON. The largest of which is as a member of the appearing group, \$991,000. Is that correct?

Mr. STRAUSS. Yes; \$991,000,000.

Senator JOHNSON. I am sure you can pardon an old man getting a little mixed as between millions and billions in an investigation of this kind.

Mr. STRAUSS. Well, I am still older and perhaps more mixed myself.

Senator JOHNSON. All right. I observe here that you were a member of an appearing group in a loan to Japan amounting to \$220,000,000. Is that correct?

Mr. STRAUSS. Yes; in two issues.

Senator JOHNSON. I want to turn first to the dates of your issue to Japan, if you please.

Mr. STRAUSS. All right.

Senator JOHNSON. Or, perhaps we can identify them in another fashion. Do you know whether one of these was a loan sponsored by J. P. Morgan & Co. just after the earthquake in Japan?

Mr. STRAUSS. Yes; in 1924. That is correct.

Senator JOHNSON. And that loan was for how much?

Mr. STRAUSS. The total of the loan was \$150,000,000.

Senator JOHNSON. What was your participation in that? But, first, that was in February of 1924?

Mr. STRAUSS. Yes.

Senator JOHNSON. And that loan was offered at 92½?

Mr. STRAUSS. Yes.

Senator JOHNSON. What was your participation in that loan?

Mr. STRAUSS. In that loan we had an interest as follows: In the purchase group \$300,000, in the distributing group \$300,000, and in the selling group a very small interest, of \$15,000.

Senator JOHNSON. Do you remember what was the original purchase price of that loan?

Mr. STRAUSS. Well, I don't know about that. All we would know would be the price at which we entered. Whether J. P. Morgan & Co. got a commission, and, if so, how much, we have no knowledge.

Senator JOHNSON. You entered that loan at 92½?

Mr. STRAUSS. The offering price to the public was 92½, and we entered it at 88½.

Senator JOHNSON. So your particular spread was  $\frac{1}{4}$  in the case of that loan?

Mr. STRAUSS. That is correct.

Senator JOHNSON. Now, take the other loan to Japan, in June of 1928.

Mr. STRAUSS. In June of 1928?

Senator JOHNSON. Yes; \$70,000,000.

Mr. STRAUSS. That was to the Tokyo Electric Light Co.

Senator JOHNSON. The sponsors of that loan was the Guaranty Co. of New York?

Mr. STRAUSS. That is correct.

Senator JOHNSON. How large was your participation in that \$70,000,000 loan?

Mr. STRAUSS. We had in the first group \$1,000,000; in the second group \$950,000, and in the third group \$965,000.

Senator JOHNSON. And your purchase price in the case of that loan was what?

Mr. STRAUSS. We went into the group at 87. What the commission, if any, was that was charged by the Guaranty Co. of New York prior to that we have no knowledge.

Senator JOHNSON. Your offering or sale price was 90 $\frac{1}{2}$ ?

Mr. STRAUSS. Yes.

Senator JOHNSON. Can you state the purpose of that loan?

Mr. STRAUSS. I can not now. We have circulars here for all issues of our own, those in which our name appeared, but we have not this Tokyo Electric Light Co. circular.

Senator JOHNSON. I presume that is because the loan was negotiated by the Guaranty Co. of New York?

Mr. STRAUSS. Yes.

Senator JOHNSON. All right. Now, let us take your list here and very rapidly go through it, if you please. We start with the Province of Lower Austria, \$2,000,000.

Mr. STRAUSS. Yes.

Senator JOHNSON. And your points as shown here were 11.5; is that correct?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. Does that mean spread?

Mr. STRAUSS. That means spread.

Senator JOHNSON. Out of that what was your profit?

Mr. STRAUSS. Our total profit, of all kinds, in connection with that matter was \$39,152.

Senator JOHNSON. Why should that be so with a spread of 11.5 points?

Mr. STRAUSS. The expenses in connection with the selling of a small loan necessitate a wider spread.

Senator SHORTRIDGE. What did the Government get for the bonds in that case?

Mr. STRAUSS. The Government got 87 for the bonds.

Senator SHORTRIDGE. And they were sold at what rate?

Mr. STRAUSS. They were sold at 98 $\frac{1}{2}$ .

Senator SHORTRIDGE. You may go on.

Senator JOHNSON. That was one of the issues that you originated, was it not?

Mr. STRAUSS. Yes.

The CHAIRMAN. But it was only for \$2,000,000?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. It was originated by this house, Mr. Chairman, and the gross spread as shown by the statement submitted was 11.5 points.

The CHAIRMAN. I suppose they had just about as much expense attached to that loan as they would have had in the case of a \$50,000,000 loan.

Mr. STRAUSS. More proportionately.

Senator JOHNSON. I have no idea about that.

The CHAIRMAN. I suppose the expense of advertising and all that is exactly the same?

Senator JOHNSON. But with a spread of 11.5 points I was inquiring of Mr. Strauss why it was that his house made a profit of only between thirty and forty thousand dollars.

Mr. STRAUSS. Well, we subdivided participation with the people who brought the loan to us. And for any more details I am afraid I shall have to ask my associates here what was the situation. On my left is Mr. Henry C. Breck and on my right is Mr. Lionel Stahl, of our house.

Senator JOHNSON. Of course you may do that whenever you wish. There is no objection.

Mr. STRAUSS. My associate, Mr. Breck, calls my attention to the fact that the expenses alone in the case of that loan amounted to \$87,000, which was equal to  $4\frac{3}{4}$  points spread.

Senator JOHNSON. Very well. Any explanation you may desire to make in reference to that spread, and the small amount of your profits, I will be very glad to have you make.

Mr. STRAUSS. My associate here calls my attention to the fact that our interest in the final selling group was very small; that the securities were sold through other houses to whom commissions were allowed.

Senator JOHNSON. You started the sale, did you not?

Mr. STRAUSS. We initiated the business, or we led the business.

Senator JOHNSON. And your first step-up price was what?

Mr. STRAUSS. There was a step-up price of 8 points.

Senator JOHNSON. You took an 8-point step-up price to begin with in the case of that loan?

Mr. STRAUSS. And that amounted to \$160,000.

Senator JOHNSON. All right. Now, we will take the next loan—

Mr. STRAUSS (interposing). One minute, if I may, Senator Johnson.

Senator JOHNSON. Certainly. Make any explanation you deem proper.

Mr. STRAUSS. From that sum there was deducted, and which the group did not get, \$87,000 of actual expense, leaving the net revenue or profit \$72,000, or about 3.6 points.

Senator JOHNSON. What is the figure on the statement that you have furnished us in the third column, \$230,000, in relation to that loan? What does that mean?

Mr. STRAUSS. That is what the spread times the principal amount of the issues gives if carried out in that way.

Senator JOHNSON. That is simply figuring on the gross spread?

Mr. STRAUSS. Yes; as a matter of convenience and before other figures explanatory of the situation are given.

Senator JOHNSON. I am very glad you did that, because that is what I have been striving to get here from the various parties appearing before the committee. And now that you have made your explanation I take it that it will be understood. This third column constitutes the gross profit which would have been derived from the loan figured on the basis of that spread.

Mr. STRAUSS. If there had been no expense, commissions, or anything, that would have been the gross amount derived from such a spread.

Senator JOHNSON. I understand. I will now go ahead with the next loan. The Department of Cauca Valley. Where is that, Mr. Strauss?

Mr. STRAUSS. That is in the United States of Colombia. It is a province in that country.

Senator JOHNSON. That is a loan of \$2,500,000, and your spread was 13.

Mr. STRAUSS. It was 13 there.

Senator JOHNSON. What was your profit in that loan?

Mr. STRAUSS. It was \$104,000, a shade over 4 per cent.

Senator JOHNSON. You have your contract with the Department of Cauca Valley, have you not? I am not asking you to produce it for the moment, but just want to know if you have it.

Mr. STRAUSS. Yes; we have it.

Senator JOHNSON. Have you more than one contract with the Department of Cauca Valley?

Mr. STRAUSS. We have not.

Senator JOHNSON. Do you have the original contract, first I will ask you, for the purchase of the bonds; and, secondly, have you a contract subsequently entered into by which you were to sell the bonds and providing for the distribution of the proceeds?

Mr. STRAUSS. No.

Senator JOHNSON. You have but one contract with the Department of Cauca Valley.

Mr. STRAUSS. Do you mean with the Government, the department?

Senator JOHNSON. That is what I mean.

Mr. STRAUSS. Yes.

Senator JOHNSON. All right. Now, having settled that point—that is, that you have but one contract with the Department of Cauca Valley, Colombia; that is, I mean, a governmental contract—have you a contract with anybody connected with the government of Cauca Valley, or the Department of Cauca Valley, in relation to the sale of these bonds?

Mr. STRAUSS. None.

Senator JOHNSON. So that we may say that there is but one contract that was made or executed in relation to the disposition of these bonds with any person, either directly or indirectly?

Mr. STRAUSS. That is correct.

Senator JOHNSON. By the way, is that bond issue of \$2,500,000 still outstanding, having a spread of 13?

Mr. STRAUSS. Yes.

Senator JOHNSON. Is the interest on the bonds now being paid?

Mr. STRAUSS. Yes; up to the present time.

Senator JOHNSON. The Department of Cauca Valley is some political subdivision of the United States of Colombia I assume?

Mr. STRAUSS. Yes. I might also add at this point, in view of your last question, that the interest on the bonds of lower Austria is being paid at the present time.

Senator JOHNSON. And then you have a second issue of bonds of the Department of Cauca Valley, \$1,500,000, and there you had a spread of 8?

Mr. STRAUSS. Yes.

Senator JOHNSON. And the gross profit of J. and W. Seligman & Co. was \$120,000?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. The gross profits on the other issue of bonds of the Department of Cauca Valley being \$325,000.

Mr. STRAUSS. That is correct.

Senator JOHNSON. Have you more than one contract in existence, or was there more than one contract executed, in relation to the second loan made to the Department of Cauca Valley?

Mr. STRAUSS. There was not.

Senator JOHNSON. And next we come to an issue of bonds for housing and realty improvements—

Mr. STRAUSS (interposing). Senator Johnson, might I make an observation right there?

Senator JOHNSON. Certainly.

Mr. STRAUSS. The difference in the matter of spread, being a drop of from 13 to 8, grew out of the fact that the first time the Department of Cauca Valley came into the market there was a somewhat different situation. A new risk had to be taken, and the situation was not as well known, and then subsequently, the first bond issue having been successfully placed, the next bonds were placed at a smaller spread.

Senator JOHNSON. By the way; in connection with these two issues of bonds of the Department of Cauca Valley, how many firms or individuals were engaged with you in the ultimate sale of the bonds?

Mr. STRAUSS. In the case of the first loan, in the matter of final distribution there were 64, and in the banking group, 51. In the matter of the second loan, there were 95 in the distributing group, and that was all. There was no intermediate group.

Senator JOHNSON. Were these two issues of bonds outright purchases by you?

Mr. STRAUSS. They were.

Senator JOHNSON. And what was the outright purchase price to you?

Mr. STRAUSS. The first loan was purchased at 83½.

Senator JOHNSON. And at what price were the bonds disposed of to the first group formed?

Mr. STRAUSS. At 92¼.

Senator JOHNSON. Now, take the second bond issue of the Department of Cauca Valley, and that was acquired at what price by you?

Mr. STRAUSS. At 90.

Senator JOHNSON. And they were disposed of to the first group formed by you at what price?

Mr. STRAUSS. At 95.

Senator JOHNSON. Now, the next issue of bonds shown on your statement is Housing and Realty Improvement Co., \$1,500,000. What was that?

Mr. STRAUSS. That was a company in the city of Berlin for workmen's houses.

Senator JOHNSON. When you say workmen's houses, were those housing accommodations for industrial plants?

Mr. STRAUSS. No; it was for middle-class workers. It was a large apartment house, as we would call it in this country, located in the western residential section of the city of Berlin, Germany.

Senator JOHNSON. It was a residential-apartment house for middle-class people in Berlin?

Mr. STRAUSS. Right.

Senator JOHNSON. Was that issue guaranteed by the Government?

Mr. STRAUSS. No; it was not.

Senator JOHNSON. Was it guaranteed by the city of Berlin?

Mr. STRAUSS. No.

Senator JOHNSON. Was that loan made to a private corporation of the city of Berlin?

Mr. STRAUSS. Yes; or at least to a private corporation of Germany. I do not know under what law the corporation was organized.

Senator JOHNSON. Well, under the laws of Germany is what I meant.

Mr. STRAUSS. Yes, sir.

The CHAIRMAN. Have they defaulted on any of their payments?

Mr. STRAUSS. They have not. And if you wish me, Mr. Chairman, I can state in each case whether there has been a default or not.

The CHAIRMAN. I wish you would.

Senator JOHNSON. Those that have defaulted I wish you would call the committee's attention to.

Mr. STRAUSS. None of these have defaulted that we have yet reached.

Senator JOHNSON. None of these bond issues thus far mentioned has defaulted as I understand the situation.

Mr. STRAUSS. No.

Senator JOHNSON. And your spread in the case of this issue to the Housing and Realty Improvement Co., \$1,500,000, represents a spread of  $8\frac{1}{2}$  points.

Mr. STRAUSS. That is correct.

Senator JOHNSON. What did you acquire that issue at?

Mr. STRAUSS. At  $89\frac{1}{2}$ .

Senator JOHNSON. What was the first step-up price to the first group that dealt with that issue?

Mr. STRAUSS. It was from 4 to  $5\frac{1}{2}$  points, varying with the different people in the group and depending upon how much they disposed of. So that on an average one might say it would be  $4\frac{1}{2}$  points, although we can not give you the precise figures, because some got them at 4 and some at 5 and some at  $5\frac{1}{2}$ .

Senator JOHNSON. The next issue is to Costa Rica, \$8,000,000.

Mr. STRAUSS. Yes.

Senator JOHNSON. At what price did you obtain that issue?

Mr. STRAUSS. At 88.

Senator JOHNSON. And what was the first step-up price there?

Mr. STRAUSS. Three and one-half points, namely, 91½.

Senator JOHNSON. Did you say 91½?

Mr. STRAUSS. Yes.

Senator JOHNSON. The spread, however, was 7½ points.

Mr. STRAUSS. That is correct.

Senator JOHNSON. That was a governmental loan.

Mr. STRAUSS. That was a Government bond.

Senator JOHNSON. You say it was a Government bond?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. And there was a total of \$8,000,000 with a spread of 7½, and you show there \$600,000.

Mr. STRAUSS. That is correct.

Senator JOHNSON. What year was that bond issue obtained, if you please?

Mr. STRAUSS. In December of 1926.

Senator JOHNSON. The next bond issue is that of Peru, 7 per cent, \$15,000,000. What date was that obtained?

Mr. STRAUSS. March of 1927.

Senator JOHNSON. Was it obtained originally by you alone?

Mr. STRAUSS. Will you let me answer that question in this way?

Senator JOHNSON. Certainly.

Mr. STRAUSS. We were the leaders in that business. It was brought to us by F. J. Lisman & Co., however.

Senator JOHNSON. But you were the leaders in the disposition of that bond issue?

Mr. STRAUSS. That is correct.

Senator JOHNSON. Have those bonds defaulted?

Mr. STRAUSS. That has defaulted.

Senator JOHNSON. Now, let me ask you as to the next two issues of Peru, \$50,000,000 and \$35,000,000. Have they both defaulted too?

Mr. STRAUSS. They have both defaulted.

The CHAIRMAN. At what date or in what year did they default?

Mr. STRAUSS. The first default of any Peruvian bonds occurred on April 1, 1931.

Senator JOHNSON. What was the original purchase price of the first issue of Peru of \$15,000,000?

Mr. STRAUSS. At 90.

Senator JOHNSON. And your spread was 6½ points?

Mr. STRAUSS. That is correct.

Senator JOHNSON. Who constituted the second organized group in reference to the Peruvian loan?

Mr. STRAUSS. J. & W. Seligman & Co., National City Co., E. H. Rollins & Co., Graham Parson & Co., F. J. Lisman & Co., and Ames, Emerich & Co.; six in all.

Senator JOHNSON. Now, take the next issue of Peru, 6 per cent, \$50,000,000, with spread of 5½, while the spread in the case of the previous bond issue was 6½ points.

Mr. STRAUSS. Yes.

Senator JOHNSON. Who constituted the second sponsoring group there?

Mr. STRAUSS. Besides ourselves, there was the National City Co., Blyth, Witter & Co., Guaranty Co. of New York, F. J. Lisman &

Co., and Central Union Trust Co. The latter, however, did not participate in the public offering.

The CHAIRMAN. Are they in default?

Mr. STRAUSS. All Peruvian bonds are in default.

The CHAIRMAN. As of April 1, 1931?

Mr. STRAUSS. Well, those did not bear April coupons. They fell due in June. That was when the coupons on the 6 per cent loan fell due, and then they were defaulted.

The CHAIRMAN. And have they paid nothing since that time?

Mr. STRAUSS. Nothing has been paid on any of these loans since the first default in April of 1931.

Senator KING. I suppose none of these bonds has matured as yet, and that it is simply a matter of default in the payment of interest.

Mr. STRAUSS. In interest and sinking fund.

Senator KING. Under the terms of the bonds may the creditor declare the bonds due in event of default in interest or sinking fund?

Mr. STRAUSS. No. That was in the case of the first loan, the 7 per cent loan, which was secured by the tobacco monopoly. The others were issued on the faith and credit of the Government, with certain protective provisions as to prohibiting the Government from mortgaging the revenues to others, and other restrictive clauses which, if the committee wants me to go into them at the proper time I shall be glad to do it.

Senator KING. Have you made an investigation to determine what the cause of default was, whether internal revolutions, political revolutions, followed more or less by military activities, or the economic condition of the country?

Mr. STRAUSS. I think both, each one accentuated by the very low prices of commodities exported by Peru. Of course that very seriously affected the economic condition of the country. But even after the default the Government then in control expressed its willingness to negotiate some kind of postponement of payment. And then revolutions broke out, one after another, and I think there must have been half a dozen, and after that there was no one to negotiate with. And besides the revenues were applied in contravention to the terms of the loan. They were applied by the Government to other purposes than to the payment of interest on these bonds, even to the point of paying interest on internal debt to the exclusion of interest on the external debt. The revenue collecting agency called the Caja down there, under the directions of the Government turned over revenues that belonged then to the tobacco loan, which had been specifically pledged, turned them over to the Government.

Senator KING. Has a protest been made to the authorities in power in Peru, whether de facto or de jure against this dishonorable course?

Mr. STRAUSS. A number of protests have been made on several occasions, the latest protest being only a few days ago.

Senator KING. Have those protests been given any attention by the Peruvian authorities?

Mr. STRAUSS. To this extent, yes; I want to say this that every government has expressed its acceptance of the obligation. There has been no denial directly of its obligation to perform. But such informal answers as we have gotten, and such formal answers for that matter, too, all have reference to the inability to perform, not to an unwillingness to perform.

Senator KING. There has been no denial then?

Mr. STRAUSS. Except in so far as revenues have been diverted, which they had no right to divert under the contract.

Senator JOHNSON. We took two of these bond issues and you gave me the date of default. Now, the \$35,000,000 6's of Peru; what was the date of the default?

Mr. STRAUSS. The first default was April 1, 1931. The default in the \$50,000,000 issue was June, 1931.

Senator JOHNSON. Were you the original sponsor for the \$35,000,000 loan?

Mr. STRAUSS. We were.

Senator JOHNSON. What was the next group formed by you? Who constituted that group?

Mr. STRAUSS. Do you mean the next group?

Senator JOHNSON. Yes.

Mr. STRAUSS. Do you mean the people we invited into the original group just as in the other case you asked me about?

Senator JOHNSON. Yes.

Mr. STRAUSS. Besides ourselves were the National City Co., Blyth, Witter & Co., the Guaranty Co. of New York, F. J. Lisman & Co., and the Central Union Trust Co.

Senator JOHNSON. What was the step-up price to them?

Mr. STRAUSS. The total spread was five points, and the difference between the original purchase price and the next price was  $1\frac{1}{2}$  per cent.

Senator JOHNSON. What was your net profit upon these three Peruvian issues?

Mr. STRAUSS. I will have to add them up in order to give them to you.

Senator JOHNSON. Well, you may give them separately if that is more convenient.

Mr. STRAUSS. Altogether the profit on the 7 per cent issue and the two issues of 6 per cent bonds, aggregating \$100,000,000, I mean our profit on them was \$601,000.

Senator JOHNSON. How much was your profit?

Mr. STRAUSS. It was \$601,000.

Senator JOHNSON. Senator Jones requests me to ask you the date of these three issues. Will you give that information, beginning with the Peru 7s?

Mr. STRAUSS. The date of the 7 per cent loan was March 16, 1927. The date of the first 6 per cent national loan was December 21, 1927. And the date of the next, or the third issue, the national 6 per cent loan, was October 24, 1928.

Senator JOHNSON. The gross profit upon these issues of bonds as shown by your statement here was: On the first, the \$15,000,000 loan, \$975,000; on the next, or \$50,000,000 loan, it was \$2,750,000; and on the next, or \$35,000,000 loan, it was \$1,750,000. You have stated your net profit. Did you have any representative in Peru at the time the issues or any of them were made?

Mr. STRAUSS. Yes. We have had representatives in Peru ever since the first loan was made, constantly.

Senator JOHNSON. Who was that representative, please?

Mr. STRAUSS. Those representatives have been different people from time to time. My partner, Mr. Henry C. Breck, who sits at my left

here, went down two years in succession, staying in Peru in all about eight months. Mr. Lionel Stahl, of our staff, sitting on my right here, was down there for over a year. And Mr. Ruan, now dead, was down there for quite a long time. Mr. Haskell, of our office staff, was also there. One of the firm of lawyers in New York that have been advising us in this matter spent many months down there.

Senator JOHNSON. Who was it, if you please?

Mr. STRAUSS. Mr. Bloomer and Mr. Dennis spent quite a while there.

Senator JOHNSON. All in connection with these loans?

Mr. STRAUSS. In connection with these loans and in connection with a bond issue that has since been retired—or a credit, I should have said, that has since been retired; and one that is still outstanding unpaid. Two credits.

Senator JOHNSON. Did you pay any part or parts of any commission to any individual in Peru in connection with these loans?

Mr. STRAUSS. Yes.

Senator JOHNSON. Whom?

Mr. STRAUSS. This business came to us from F. J. Lisman & Co., surcharged with a commission to be paid to a group of promoters, and in that group we subsequently learned was the son of the President of Peru. So far as we are aware there was no other Peruvian connected with it.

Senator JOHNSON. Do you know how much the son of the President of Peru received upon those issues being made by the Government of Peru? It was five-eighths of 1 per cent, was it not?

Mr. STRAUSS. The entire group of promoters received for the tobacco loan two-thirds of 1 per cent, and on the subsequent,  $1\frac{1}{2}$  of 1 per cent.

Senator JOHNSON. That is, upon \$100,000,000 they received two-thirds of 1 per cent on fifteen millions and one-half of 1 per cent upon eighty-five millions; is that correct.

Mr. STRAUSS. That is substantially correct.

Senator JOHNSON. That aggregates about what sum? Something over \$600,000, does it not?

Mr. STRAUSS. \$533,000.

Senator KING. Was that on the par?

Mr. STRAUSS. On the par.

Senator KING. Not what they sold for?

Mr. STRAUSS. No.

Senator JOHNSON. So that to a group of promoters in Peru, of which the son of the President was one, you paid for the privilege of floating this loan five hundred and some odd thousand dollars; is that correct?

Mr. STRAUSS. Not entirely. It was not a group of promoters in Peru; it was an American group, which included one Peruvian, the son of the President.

Senator JOHNSON. Do you know how much the son of the President received?

Mr. STRAUSS. About \$415,000.

Senator JOHNSON. What was the name, please, of the President of Peru and his son at that time?

Mr. STRAUSS. The President was Augusto Leguia.

Senator JOHNSON. And his son's name, if you recall?

Mr. STRAUSS. Juan Leguia.

Senator JOHNSON. Do you know whether or not the fact that the son of the President received the sum of money that you have detailed as one of those engaged in promoting this loan, and has had anything to do with the defaulting of the loan?

Mr. STRAUSS. It has nothing to do with the defaulting of the loan.

Senator JOHNSON. It has had nothing to do with it?

Mr. STRAUSS. No.

Senator JOHNSON. Are you aware of the fact that the president of the Republic and his son are being prosecuted upon this very transaction?

Mr. STRAUSS. Yes, among others, I believe.

Senator JOHNSON. And are you aware of the fact that there has been any decision of the courts of Peru in respect to any of their activities in regard to these loans?

Mr. STRAUSS. A revolutionary tribunal has given judgment against the president and against his son.

Senator JOHNSON. Against the president and against his son?

Mr. STRAUSS. Yes.

Senator JOHNSON. That revolutionary tribunal has given that judgment in respect to those particular loans and because of the sums that have been received; is not that correct?

Mr. STRAUSS. I am going to ask, if I may, to have my partner, who is more familiar with it, answers the question. I will adopt his answers.

Senator JOHNSON. I shall be very glad to have anybody answer concerning this transaction; and if you will do so, go ahead, sir.

Mr. BRECK. The tribunal gave judgment against the president and his son for a great variety of acts of so-called illegal enrichment and found a very large—

Senator JOHNSON. You say "illegal enrichment." They called it bribery?

Mr. BRECK. I do not know, sir.

Senator JOHNSON. "Illegal enrichment" will do. Go ahead, sir.

Mr. BRECK. Among the transactions for which they were tried by this tribunal were alleged commissions and profits of various kinds on various kinds of business, contracts, concessions, and monopolies and similar things. The tribunal had the idea that the president and his family had made a great deal of money during the incumbency of Leguia as president of Peru.

Senator JONES. May we have the record show what his name is?

#### TESTIMONY OF HENRY C. BRECK

Mr. BRECK. My name is Henry C. Breck.

Senator KING. Were any of those transactions domestic in character, that is, the granting of concessions or monopolies to private individuals in Peru to carry the business?

Mr. BRECK. That is what the tribunal claimed.

Senator KING. How much did they find, if they found at all, had been obtained by the president's son in connection with this transaction?

Mr. BRECK. Nothing that I know of.

Senator KING. It was not singled out, then?

Mr. BRECK. Not that I know of.

Senator JOHNSON. It was included, was it not?

Mr. BRECK. Yes, among other things.

Senator JOHNSON. When you say it was not singled out, you do not mean to say that it was not mentioned?

Mr. BRECK. No.

Senator JOHNSON. It was a part of the indictment that was had against the president and his son?

Mr. BRECK. So I understand.

Senator JOHNSON. Have you any correspondence, Mr. Strauss, with those who promoted this loan, to whom these payments were made by Seligman & Co.?

Mr. STRAUSS. None.

Senator JOHNSON. How did you make the payments?

Mr. BRECK. The account of Juan Leguia on our books was credited with the amount of money due him.

Senator JOHNSON. You do not mean to say that your account ran to Juan Leguia alone?

Mr. BRECK. No; other people were also paid.

Senator JOHNSON. But you have on your books an account with Juan Leguia?

Mr. BRECK. We did have.

Senator JOHNSON. Where is it now? You say you did have it. Is it not still there?

Mr. BRECK. It has no money in it.

Senator JOHNSON. That is because you paid him?

Mr. BRECK. We paid it out on his order as we would for anybody else.

Senator JOHNSON. You had a distinct account of Juan Leguia?

Mr. BRECK. Yes.

Senator JOHNSON. He was a son of the president of the Peruvian Republic?

Mr. BRECK. He was.

Senator JOHNSON. How much does your account show that you paid him?

Mr. BRECK. \$415,000.

Senator JOHNSON. What did you pay Juan Leguia \$415,000 for?

Mr. BRECK. Because he was a member of a group of promoters who brought the business to F. J. Lisman & Co., who, in turn, brought it to us, so that when it reached us it was charged with that obligation to pay commissions to a group of which Juan Leguia was a member.

Senator JOHNSON. And you paid them?

Mr. BRECK. We paid them.

Senator JOHNSON. Did you pay them before you sold the bonds or afterwards?

Mr. BRECK. Afterwards.

Senator JOHNSON. After you sold the bonds to the American public, Juan Leguia got \$415,000 from you; is that correct?

Mr. BRECK. Correct.

Mr. STRAUSS. May I add this? Twenty-six per cent of the loans were placed abroad. That is a minor matter, but I just mention it.

Senator JOHNSON. You placed some of them abroad?

Mr. STRAUSS. Yes.

Senator JOHNSON. You escaped that percentage, at any rate, on these defaulted loans. But you are quite right: it is immaterial where they were placed.

Where are your books at the present time?

Mr. BRECK. In New York.

Senator JOHNSON. Do your books show to whom you paid sums for obtaining this loan and when?

Mr. STRAUSS. May I interrupt for a moment?

Senator JOHNSON. You may, of course; but you said that this gentleman knew the facts.

Mr. STRAUSS. All right.

Senator JOHNSON. I am very glad merely to get the facts; that is what I am seeking to do. I will get them from anyone, but I would rather pursue it with out of you at a time.

Now, if you desire, Mr. Strauss—I do not want to keep you from saying anything you want to with reference to this transaction—

Mr. STRAUSS. I will say it afterwards.

Senator JOHNSON. Say it right now. What is it you wish to say?

Mr. STRAUSS. This business, as I understand it, came to us, as Mr. Breck has said, from people in New York saying that they had to pay a commission. We had no knowledge that Leguia had any interest in it until quite a long time afterwards, when the business had proceeded up to a certain point. I just wanted to make that clear that we did not retain in any way the services of this son of the President, and when we did find it out it was something that we did not like. We thought it did not make a good picture; but there we were, committed to a group of promoters who had the President's son among them, and when we found he was among them we proceeded with the business and carried out the obligations toward that group of promoters.

Senator JOHNSON. Let me ask you right there: When Lisman & Co. came to you with this loan they told you, did they not, that they were obligated for a percentage to Juan Leguia and his set of promoters?

Mr. BRECK. They did not.

Senator JOHNSON. You did not know it before?

Mr. BRECK. We did not.

Senator JOHNSON. It was subsequently that you learned it?

Mr. BRECK. After we had embarked on the negotiation a considerable time.

Senator JOHNSON. After you had embarked on the negotiations with Peru?

Mr. BRECK. With the President of Peru.

Senator JOHNSON. But after you embarked upon the negotiations with the President of Peru, but before their consummation, you knew that you were obligated to a set of promoters, including the son of the President of Peru, for the sum that you have mentioned?

Mr. BRECK. Quite correct.

Senator JOHNSON. And you went on and consummated the negotiations?

Mr. BRECK. We did.

Senator GEORGE. Did you make any inquiry about who constituted the group of promoters when you were advised that the loan came to you charged with a commission to a group?

Mr. BRECK. No. F. J. Lisman & Co. said that this group of promoters who had brought the Peruvian business to them was entitled to a commission, the customary or usual commission paid on foreign financing, but the precise amount of the commission was not named at the time, nor were those entitled to it, beyond one individual named Bolster, mentioned to us at the time.

Senator GEORGE. You made no inquiries or demand for the names of those constituting the group?

Mr. BRECK. No, because we thought we knew what it was. It was said that Bolster had originated the business and that he and his associates were entitled to this commission. We thought we were paying no commission to anybody, ourselves; but that we were to pay it through the offices of the firm of F. J. Lisman & Co. who had brought the business to us, and it was so charged when we accepted it.

Senator JOHNSON. Did you draw a check for the amount of this commission?

Mr. BRECK. No. I told you, Senator, we credited his account with us.

Senator JOHNSON. That is, Juan Leguia's account?

Mr. BRECK. He had an account with us at the time.

Senator JOHNSON. An account for what?

Mr. BRECK. An ordinary checking account.

Senator JOHNSON. And you credited his ordinary checking account at that time with something like half a million dollars; is that correct?

Mr. BRECK. No; it was done as the various issues were brought out. He was given his share of the commission to which the group was entitled, at the same time the others were given their share.

Senator JOHNSON. Have you a transcript of your books showing Juan Leguia's account?

Mr. BRECK. No, sir.

Senator JOHNSON. We may ask you to bring your books ultimately here in respect to that. But let us proceed, now. You ascribe this thing originally to Lisman & Co.?

Mr. BRECK. I do not understand "ascribe this thing," Senator.

Senator JOHNSON. If you do not understand it, I am sure I can not make it much plainer. But you ascribe the agreement to pay Juan Leguia and the promoters to the initiation of Lisman & Co.; is that correct?

Mr. BRECK. Yes.

Senator JOHNSON. They made a full disclosure to you when they brought the business to you, did they not?

Mr. BRECK. They did not.

Senator JOHNSON. Did you take it up subsequently with them?

Mr. BRECK. No; it arose when our own representative reached Lima in the spring of 1927 to negotiate the tobacco loan.

Senator JOHNSON. Who was that representative?

Mr. BRECK. Mr. S. A. Maginnis.

Senator JOHNSON. And then he learned, or you learned, or your firm learned of the commission agreement?

Mr. BRECK. That is correct. He learned from Juan Leguia who came to see him about the existence of the agreement, and he cabled us, and that was our first knowledge of it.

Senator JOHNSON. And you carried it out then?

Mr. BRECK. Yes.

Senator JOHNSON. Is that agreement in writing?

Mr. BRECK. No.

Senator JOHNSON. Was it in writing at any time?

Mr. BRECK. Not that I know of.

Senator JOHNSON. Was there anything of evidentiary character, save Juan Leguia's statement to you that he was entitled to a commission that you have described?

Mr. BRECK. The statement of the representatives of F. J. Lisman & Co. who had gone to Peru in the first instance and made this arrangement with Juan Leguia.

Senator JOHNSON. Did they have an agreement in writing?

Mr. BRECK. I do not know.

Senator JOHNSON. Did you ever ask them whether they did or not?

Mr. BRECK. I suppose we did. I do not recall that.

Senator JOHNSON. Do you recall whether or not they ever made any reply?

Mr. BRECK. I think there was never any agreement in writing between them and Juan Leguia.

Senator JOHNSON. We have reached the point where your representative went to Peru to negotiate this loan. That representative was named what?

Mr. BRECK. S. A. Maginnis.

Senator JOHNSON. Where is he, please?

Mr. BRECK. I understand he is a lawyer in New York. He was formerly American minister to Bolivia.

Senator JOHNSON. How do you spell his name?

Mr. BRECK. M-a-g-i-n-n-i-s.

Senator JOHNSON. Mr. Maginnis then learned at Peru that there was in existence an agreement, either verbal or written, for the payment to Juan Leguia and others of a commission upon the loan?

Mr. BRECK. Correct.

Senator JOHNSON. That was the first loan, was it not?

Mr. BRECK. That was the \$15,000,000 7 per cent issue.

Senator JOHNSON. That antedated by some eight or nine months the other two loans, did it not?

Mr. BRECK. That is correct.

Senator JOHNSON. Then subsequently you paid the commission to Juan Leguia and others upon the subsequent loans, did you not?

Mr. BRECK. It was all part of the original arrangement. The agreement between F. J. Lisman & Co. and this group of promoters, of which Mr. Juan Leguia was a member, related to all Peruvian financing which the firm of F. J. Lisman & Co. or its associates might do. It related not only to the 7 per cent loan, but to the so-called refunding loan which the 6 per cent bonds constitute.

Senator JOHNSON. Did it relate also to the short-term credits?

Mr. BRECK. It related to any Peruvian financing done by a group of which F. J. Lisman & Co. should be a member.

Senator JOHNSON. And you took that over?

Mr. BRECK. We took the obligation over from them when we took the business over.

Senator JOHNSON. Did your representative talk to the President of Peru concerning that arrangement?

Mr. BRECK. Not that I know of.

Senator JOHNSON. He talked, as you know, to his son, did he not?

Mr. BRECK. His son came to him about it.

Senator JOHNSON. Did he report in writing to you concerning the matter?

Mr. BRECK. He cabled us about it.

Senator JOHNSON. Have you the cables?

Mr. BRECK. I think we have, Senator; yes.

Senator JOHNSON. I want you to produce, if the committee will permit it, all of the letters and the cables that you have in respect to your Peruvian loans, and particularly in reference to the payment of the son of the president, of the amount of money that has been testified here this morning. Will you do that?

Mr. BRECK. I will be glad to. I would just like to ask, as a matter of your own convenience, whether you want all our communications with respect to Peruvian financing, because they would take up several drawers full of space. There was a very complicated, lengthy negotiation, involving particularly the refunding loan, during which we undertook to reform the mortgage law and give them a mortgage bank, and in which we advised them about the stabilization of their currency.

Senator JOHNSON. I am not interested in the mortgage bank. I am not interested in anything except everything relating to the promoters who obtained the loan for you, and your payments to the son of the president, and, if any were made to the president, to the president himself.

Mr. BRECK. None was made to the president.

Senator JOHNSON. You are certain of that?

Mr. BRECK. Yes; positive.

Senator JOHNSON. Do you know what was done with the credit that the son had with your firm?

Mr. BRECK. He drew against his deposit, the way that any other customer would, when he needed money.

Senator JOHNSON. Did he exhaust that deposit?

Mr. BRECK. He has nothing on deposit with us now.

Senator JOHNSON. Have you drafts or checks that he drew upon that deposit?

Mr. BRECK. I would think so.

Senator JOHNSON. Will you produce them, please?

Mr. BRECK. I would be delighted to.

Senator JOHNSON. I want the Juan Leguia checks or drafts drawn upon the deposit which I understand that you gave him credit for—I speak in round numbers—half a million dollars upon those loans.

Senator KING. Would you return the checks to him in commercial transactions?

Mr. BRECK. Yes; just the way any bank does. It might be possible to get a transcript of the accounts. I doubt if the checks would be obtainable. I know there were cable payments.

Senator JOHNSON. Of what size, please?

Mr. BRECK. Thousands of dollars. I remember one to some Paris firm for merchandise.

Senator JOHNSON. Of thousands of dollars?

Mr. BRECK. Yes.

Senator JOHNSON. Tell me approximately how large the largest amount was that you cabled.

Mr. BRECK. I do not recall, Senator. My recollection is, although I have never looked at the account in summary form, that they were paid to tradesmen of one kind or another, such as Abercrombie & Fitch, New York hotels, or—

Senator JOHNSON. Do you mean to say that a large amount would be paid out to Abercrombie & Fitch?

Mr. BRECK. I think he lived at the rate of at least \$250,000 or \$300,000 a year for several years.

Senator JOHNSON. He could, under the circumstances, I presume, have lived at that rate.

Do you know whether or not your loans to Peru enabled Leguia to continue in office?

Mr. BRECK. All I know is the purposes for which the loan proceeds were applied.

Senator JOHNSON. What were the purposes?

Mr. BRECK. If I may refer to that memorandum that I gave you, Senator, the proceeds of the tobacco loan were applied primarily to the redemption of certain internal issues in relatively small amount; to payment for the machinery necessary to complete the tobacco factory itself, furnished by American concerned; and the remainder largely for road building, according to the statements of the Peruvian officials themselves. The 6 per cent Peruvian national loan was primarily a refunding operation undertaken for the purpose of simplifying the country's financial structure, which up to that time consisted of several issues of bonds secured by specific revenues of one kind or another; and they had so complicated the country's financial structure that it was unable to borrow economically by reason of it.

We therefore undertook this refunding loan, and of the \$85,000,000 principal amount, the bonds constituting the first and second series, approximately 63½ per cent of the proceeds were used to purchase or retire external secured bonds, extend secured serial notes, and internal floating indebtedness—approximately 63½ per cent. About 1.3 per cent was used to provide capital for a mortgage bank. Approximately 6¾ per cent provided the money for the construction and improvement of dock and shipping facilities paid in its entirety to an American firm of constructors.

Senator JOHNSON. What was that firm's name?

Mr. BRECK. Frederick J. Snare Co.; 28.3 per cent was used for expenditures for public works of one kind or another specified in an exhibit to the loan contract, such as roads, irrigation, and works of sanitation and hygiene.

Senator KING. Did you supervise in any way the expenditures of that 28 per cent, or did you have some one there to see that they were properly applied for the purposes which you have just stated to Senator Johnson?

Mr. BRECK. We would like very much to have, and we requested it, but were told we were usurping the sovereignty of a nation, to

direct how their expenditures would be employed. We were able, however, to control the expenditure of money spent on the docks by paying it out entirely to the contractor ourselves. Similarly with respect to refunding. It was all done by concentrating the proceeds with ourselves and the City Co. and paying them out to the bondholders as their bonds were redeemed.

As to the 28.3 per cent which was spent for public works, we paid it over to the Government, not in one lump sum as they wished and asked, but \$750,000 monthly, on the ground, we said, that they could not economically spend a large amount at once, and it was better to get the money regularly, and we so paid it out to them.

Senator KING. Did your agents who were there report that they were conducting these improvements or making these improvements for hygiene and bridge and roads as indicated?

Mr. BRECK. In a general way, yes. The Ministry of Finance of the Republic each month published a list of the public works expenditures in great detail. We followed that list closely, and at one time after the second series of the Peruvian national loan, we were instrumental in getting the President to designate a United States Army officer to report upon the public works then being carried on in Peru. We felt that there was construction going on which we ourselves perhaps would not have selected had we been doing it, and we wanted the benefit of some expert advice on it; and Colonel Moore, this American engineer, was designated by the President to go over the whole works, which he did, and he reported to the President, not to us, six months after that. This was following the second series in the fall of 1928. We felt that those expenditures were in many cases unnecessary, or at least unnecessary at that time, having in mind Peru's state of development, her wealth, and we urged the President to cut them down drastically or to concentrate them, spending what money he had on 1, 2, or 3 principal works instead of distributing it largely all over the country. He objected to that, and that was the beginning of the end of our relations as purchasers of the Republic's securities, because we felt it was not wise thereafter to purchase additional bonds while expenditures were being made in that way.

Senator KING. What were the expenditures generally that the Army officer, Colonel Moore, looked after?

Mr. BRECK. A large irrigation project in northern Peru, the Olmos irrigation project, and several separated railway projects, not linked up to each other, and considerable road building.

Senator JOHNSON. You have been discussing these loans, and I will discuss them with you, with your permission, hereafter. You stated the amount that you credited to the account of Juan Leguia, did you not?

Mr. BRECK. Yes.

Senator JOHNSON. That was how much?

Mr. BRECK. Approximately \$415,000.

Senator JOHNSON. Between \$400,000 and \$500,000 would be within the limits, anyway?

Mr. BRECK. Yes; it would.

Senator JOHNSON. The account upon your books, ran just in the name of Juan Leguia, did it not?

Mr. BRECK. Yes.

Senator JOHNSON. It credited him with some four hundred and some odd thousands of dollars, and you paid out that four hundred and some odd thousands of dollars upon either his personal check or his personal request?

Mr. BRECK. Correct.

Senator JOHNSON. The account I assume is closed to-day? That is, there is no credit due him to-day, is there?

Mr. BRECK. I think not.

Senator JOHNSON. Tell me the names of the other promoters who were engaged in obtaining this loan.

Mr. BRECK. Mr. Harold Bolster—

Senator JOHNSON. Who is Harold Bolster?

Mr. BRECK. Harold Bolster is now dead. He was the individual who went to Peru in the first instance and interested F. J. Lisman & Co. in Peruvian financing. He met Juan Leguia down there, and it was through Mr. Bolster that Mr. Juan Leguia came into the financing.

Senator JOHNSON. Who else?

Mr. BRECK. S. A. Maginnis.

Senator JOHNSON. And he, you say, is in—

Mr. BRECK. A lawyer in New York, I believe.

(Letter received from Mr. Frederick Strauss, J. & W. Seligman & Co.):

New York, January 12, 1932.

Hon. REED SMOOT,

*Chairman of Committee on Finance,  
United States Senate, Washington D. C.*

MY DEAR SENATOR: There is one thing I should like to mention now, and that is to correct an implication which might possibly be drawn from the testimony of Mr. Breck on page 868 of the transcript, that Mr. S. A. Maginnis was ever a member of the original group of promoters through whom F. J. Lisman & Co. came in contact with the Peru business. Mr. Maginnis was not associated with them in any way but was, as Mr. Breck stated earlier on page 859 of the transcript, our own representative whom we sent to Lima early in 1927 to negotiate with the President of Peru the details of the so-called tobacco loan, the general outlines of which had already been agreed upon in an interchange of cables between ourselves and F. J. Lisman & Co. and the President of Peru. The terms of Mr. Maginnis's employment by us were such that his compensation was dependent upon the successful consummation of the negotiations in which he was our representative; that is, he was to be paid a commission if we succeeded, as a result of his negotiations. In consummating the business. He was not, however, in any way associated with the original group of promoters, whose relation to the Peru business through F. J. Lisman & Co. is set forth elsewhere in our testimony. Will you kindly have the foregoing read into the record?

Yours sincerely,

FREDERICK STRAUSS.

Senator JOHNSON. Who else?

Mr. BRECK. Mr. Salt.

Senator JOHNSON. What is his first name?

Mr. BRECK. T. V. Salt.

Senator JOHNSON. Anybody else?

Mr. BRECK. No.

Senator JOHNSON. No others?

Mr. BRECK. No.

Senator JOHNSON. Have you accounts on your books with Mr. Bolster, Mr. Maginnis, and Mr. Salt in relation to these loans?

Senator JONES. Will you have him state who Mr. Salt is?

Senator JOHNSON. Who is Mr. Salt?

Mr. BRECK. He was an employee of F. J. Lisman & Co. who went to Peru after Mr. Bolster first went and made the arrangement with Mr. Juan Leguia to give Mr. Juan Leguia a commission.

Senator JOHNSON. Was this commission all to Mr. Juan Leguia that was to be paid?

Mr. BRECK. No; it was to be paid in various amounts to the names I have given you.

Senator JOHNSON. How much did you pay Mr. Salt?

Mr. BRECK. \$10,000.

Senator JOHNSON. How much did you pay Mr. Bolster?

Mr. BRECK. \$67,373.

Senator JOHNSON. How much did you pay Mr. Maginnis?

Mr. BRECK. \$40,000.

Senator JOHNSON. And Mr. Juan Leguia—let us get his amount accurately, please.

Mr. STAHL. \$415,000.

Senator JOHNSON. That was the syndicate, then, of promoters who obtained the loan for you and to whom you were obligated to pay this commission, is it?

Mr. BRECK. Correct.

Senator JOHNSON. Do you know why it was that you paid Mr. Juan Leguia \$415,000 against about \$100,000 to the other members?

Mr. BRECK. That was the arrangement inter se.

Senator JOHNSON. Among themselves?

Mr. BRECK. Yes.

Senator JOHNSON. Was that arrangement made in writing?

Mr. BRECK. Not that I know of.

Senator JOHNSON. Did you ever investigate to ascertain?

Mr. BRECK. We accepted the word of our associates in the business that that was the arrangement.

Senator JOHNSON. There was no investigation at all?

Mr. BRECK. All the members of the group of promoters were agreed that that was the arrangement. Nobody thought otherwise.

Senator JOHNSON. Mr. Juan Leguia you have described as a gentleman who was able to live at the rate of \$250,000 or \$300,000 a year, and he evidently was having a very delightful time upon that; but upon what theory were you entering into a contract with Juan Leguia, living as he did and knowing what sort he was, the son of the President of the Republic—

Mr. BRECK. We entered into no contract with him.

Senator JOHNSON. Evidently you did, because you paid him \$415,000. I am not speaking now of a written contract.

Mr. BRECK. Senator, all I mean is that he was a member of the group of promoters who were entitled to a commission approximating one-half of one point on the business which was done. That arrangement was not made with us; it was made with the group of promoters themselves.

Senator JOHNSON. But carried out and paid by you?

Mr. BRECK. Yes; it was paid by us, because the business was charged with that commission when we took it.

Senator JOHNSON: And you knew it before you consummated the business?

Mr. BRECK. Correct.

Senator JOHNSON. Let me suggest to you, if I may, without any invidious intent at all, that as shrewd, sharp New York bankers you knew just what you were doing when you paid Juan Leguia \$415,000, did you not?

Mr. BRECK. When we paid him that amount?

Senator JOHNSON. You knew just what you were paying it for, did you not?

Mr. BRECK. I do not exactly understand you, Senator.

Senator JOHNSON. You knew that you were paying the son of the President of Peru that amount to get these loans, did you not?

Mr. BRECK. We were paying it to this group of promoters who brought the business to us.

Senator JOHNSON. The rest of the promoters did not amount to much, as far as getting the loan was concerned. It was Juan Leguia who was the big man in getting it, was it not?

Mr. BRECK. I wouldn't say so.

Senator JOHNSON. Of course. So you paid Juan Leguia \$415,000—the son of the President of Peru—to get loans from the Government of Peru. Is not that the fact?

Mr. BRECK. No, Senator. I do not think you state it correctly.

Senator JOHNSON. All right. You state it your way.

Mr. BRECK. A group of promoters originated a piece of business, brought it to a New York banking house who brought it to us. We were without knowledge of the group which constituted the promoters until we were embarked on the negotiations. When we learned that Mr. Juan Leguia was a member of the group we did not for that reason discontinue the negotiations. We went through and completed it, having all our dealings with the President of Peru himself. We had practically no dealings with Juan Leguia at any time. He was simply, as far as we were concerned, an outside member of the group of promoters. When the transaction was completed and the bonds sold we paid out of our own profits to the group of promoters the sums of money we have already told you.

Mr. JOHNSON. May I ask, Mr. Chairman, if all of the witnesses were sworn this morning?

The CHAIRMAN. No; just Mr. Strauss.

Senator JOHNSON. You were not sworn, were you, Mr. Breck?

Mr. BRECK. No; but I should be glad to make any of my testimony under oath.

Senator JOHNSON. I ask it merely because it has been done with all of the witnesses. I ask that the oath be administered as well to these other two gentlemen.

The CHAIRMAN. That is perfectly satisfactory to me. I thought Mr. Strauss was the witness.

Senator JOHNSON. The suggestion was made to me. That is the reason I make it, Mr. Chairman.

(Henry C. Breck and Lionel Stahl, of J. & W. Seligman & Co., 54 Wall Street, New York City, were duly sworn by the chairman.)

Senator JOHNSON. Now, Mr. Breck, you say you had nothing to do with Juan Leguia after you began negotiations with the President?

Mr. BRECK. That is correct.

Senator JOHNSON. Who carried on the negotiations with the President?

Mr. BRECK. Mr. Maginnis, on the tobacco loan, and the various individuals we have named to you, including myself, in connection with other loans.

Senator JOHNSON. Did you carry on in connection with a portion of these loans the negotiations? Did you, personally, with the President of Peru?

Mr. BRECK. I did.

Senator JOHNSON. For how long a period were you engaged in carrying on those negotiations?

Mr. BRECK. We were negotiating at one time or another with the Republic of Peru almost constantly, from the latter part of 1926 until the present time practically.

Senator JOHNSON. For how long a period in 1927 and 1928 were you personally negotiating with the President of Peru?

Mr. BRECK. Four months in 1928 and four months in 1929.

Senator JOHNSON. Did you on any occasion speak to the President of Peru concerning the sums that you were paying to his son?

Mr. BRECK. I did not.

Senator JOHNSON. Why?

Mr. BRECK. I was not asked.

Senator JOHNSON. Is that the only reason you can suggest—that you were not asked?

Mr. BRECK. I was not asked and it had nothing to do with the negotiations.

Senator JOHNSON. You told me that you were negotiating for some months in each year with the President of Peru with respect to these loans.

Mr. BRECK. Yes; but the amounts that were paid to a group of promoters had no relation to the negotiations which were being carried on as to the terms of the loan.

Senator JOHNSON. You say it had no relation to it. If you had not got the loans, you would not have paid the sums, would you?

Mr. BRECK. That is correct.

Senator JOHNSON. All right. You were negotiating these loans, knowing that you had to pay to the son of the President of Peru something over \$400,000 if you got them, and you never mentioned a word to the President of Peru concerning them?

Mr. BRECK. Correct.

Senator JOHNSON. Why, I ask you again?

Mr. BRECK. There was no reason to mention it.

Senator JOHNSON. No reason to mention it. Is there nothing that suggests itself to you in relation to a loan you are getting from a republic, concerning which you are paying the son of the president of the republic substantially half a million dollars?

Mr. BRECK. We did not look at it in that way, Senator. We did not look upon this business as being obtained because the son of the president received a certain amount of money. The son of the president was a member of a group of promoters to whom we were obligated to pay money before we went into the business.

Senator JOHNSON. Did you know, when you began your negotiations, that you were obligated to pay this group of promoters, as you term them, this sum of money? Did you know—

Mr. BRECK. Not in detail, Senator.

Senator JOHNSON. Did you know the proportion in which you were to pay them?

Mr. BRECK. We did not.

Senator JOHNSON. How did you charge the amount, in the first instance, upon your books?

Mr. BRECK. By the time the loan was completed the details of each person's commission were agreed upon.

Senator JOHNSON. Agreed upon by them.

Mr. BRECK. By them.

Senator JOHNSON. And accepted by you.

Mr. BRECK. Accepted by us.

Senator JOHNSON. Then there must have been an agreement as to percentage originally made, was there not?

Mr. BRECK. An approximate agreement.

Senator JOHNSON. And that approximate agreement as to percentage was what?

Mr. BRECK. We thought it was approximately one-half of 1 per cent on all the bonds. As it turned out, the claims of the various promoters were such that there was more than one-half of 1 per cent in that \$15,000,000 tobacco loan, which we finally paid them.

Senator JOHNSON. Did you have any dispute or controversy respecting that?

Mr. BRECK. We thought it was too much.

Senator JOHNSON. You thought it was too much. Why?

Mr. BRECK. Because it is more than the customary, or considerably more than the customary amount. A half of 1 per cent is a fairly high commission to pay for originating business of this kind.

Senator JOHNSON. Is it customary or usual to pay the son of the president of a republic one-half of 1 per cent for a loan?

Mr. BRECK. I think not.

Senator JOHNSON. Did you have any controversy in writing in respect to the particular matter?

Mr. BRECK. No.

Senator JOHNSON. Did you have any communications, or any sort of writing that passed between you and any one of these gentlemen, Bolster, Maginnis, or Salt?

Mr. BRECK. I think not. It was all verbal.

Senator JOHNSON. Were there any letters or communications that passed between you and Juan Leguia in reference to the payment?

Mr. BRECK. No.

Senator JOHNSON. Is the mere payment of five or six hundred thousand dollars, as the case might be, in a matter of this sort, one which you usually conduct without any writing whatsoever?

Mr. BRECK. Frequently commissions are paid upon the receipt of the individual receiving them.

Senator JOHNSON. And without the slightest evidence of a contract in writing between you?

Mr. BRECK. I think that is done.

Senator JOHNSON. It may be. I am not disputing you, but I am asking you, that is all. You think it may be done?

Mr. BRECK. Yes.

Senator JOHNSON. All right. Have you an account on your books with Mr. Bolster?

Mr. BRECK. I think we did have at one time. He is dead now.  
Senator JOHNSON. Do you know whether or not that account appears?

Mr. BRECK. I think it does, Senator. I do not recall offhand.

Senator JOHNSON. Do you know how Mr. Bolster was paid his \$67,000?

Mr. BRECK. I think it was paid in the first instance by a check by F. J. Lisman & Co. for \$10,000, and his estate was later paid \$57,000 in connection with the 6 per cent.

Senator JOHNSON. By whom?

Mr. BRECK. By us, as syndicate managers.

Senator JOHNSON. Was a demand made upon you by his estate?

Mr. BRECK. Yes.

Senator JOHNSON. How was that demand made?

Mr. BRECK. A request by the attorneys for the executor.

Senator JOHNSON. Did he not recite that there had been an agreement in writing in respect to the matter?

Mr. BRECK. He did—no, he cited that there had been an agreement.

Senator JOHNSON. Do you know whether an agreement in writing was insisted upon?

Mr. BRECK. I do not know.

Senator JOHNSON. Can you not recall?

Mr. BRECK. The commission arrangements were inter se, among the group of promoters.

Senator JOHNSON. Did Mr. Juan—

Mr. BRECK. We were told that was the arrangement between the promoters.

Senator JOHNSON. Did the son of the president tell you that?

Mr. BRECK. Yes.

Senator JOHNSON. Write it to you?

Mr. BRECK. No.

Senator JOHNSON. Whom did he tell?

Mr. BRECK. He told me.

Senator JOHNSON. He told you that was it?

Mr. BRECK. Yes.

Senator JOHNSON. What did he tell you in respect to it?

Mr. BRECK. He told me that Harold Bolster was entitled to this amount of money as his share of the promoters' agreement—the promoters' commission.

Senator JOHNSON. What did you say?

Mr. BRECK. I said all right.

Senator JOHNSON. You said all right. What else did he say to you?

Mr. BRECK. I think that is all.

Senator JOHNSON. Did you know, up to that time, that Bolster was interested in getting a commission out of the loan?

Mr. BRECK. Yes. He was the one whose name first came to our attention from F. J. Lisman & Co.

Senator JOHNSON. Juan Leguia said to you that Bolster is entitled to \$67,000?

Mr. BRECK. No. It was not said that way. The commission agreement runs from F. J. Lisman & Co. to Bolster, and at the time of the tobacco loan, 7 per cent bonds were floated, there was a con-

siderable disagreement between F. J. Lisman & Co. and Mr. Bolster as to the proper amount that he was to receive, and other individuals in the group—promoters—were to receive. That was not brought to our attention until after the controversy had gone a considerable way, and after discussion of the matter a settlement was made by which Mr. Bolster accepted, on the tobacco loan, the amount indicated.

Senator JOHNSON. What was the amount indicated?

Mr. BRECK. \$10,000.

Senator JOHNSON. \$10,000. Go ahead.

Mr. BRECK. And, as part of that settlement, it was agreed that he would receive \$57,373 if and when the \$50,000,000 refunding loan was floated.

Senator JOHNSON. That had not yet been floated?

Mr. BRECK. It had not yet been floated.

Senator JOHNSON. And you had not yet obtained it?

Mr. BRECK. We had not yet obtained it.

Senator JOHNSON. Did you agree to that?

Mr. BRECK. We did.

Senator JOHNSON. Then there must have been some agreement, at the same time, as to what would be paid the other people, was there not?

Mr. BRECK. Yes, there was, Senator.

Senator JOHNSON. All right. What was the agreement you then made as to the payments to Juan Leguia?

Mr. BRECK. That he would receive one-half of 1 per cent.

Senator JOHNSON. That was the agreement?

Mr. BRECK. Yes.

Senator JOHNSON: He told you, or did you learn it from somebody else?

Mr. BRECK. No; at that time he told us that that was the arrangement, and we agreed to it.

Senator JOHNSON. That is, Juan Leguia told you that the arrangement was that he was to have one-half of 1 per cent upon the loans that you got from the Peruvian Republic, and you agreed to it; is that correct?

Mr. BRECK. That is correct.

Senator JOHNSON. Was that told you in Peru?

Mr. BRECK. No.

Senator JOHNSON. Where?

Mr. BRECK. New York.

Senator JOHNSON. When Leguia was there?

Mr. BRECK. Yes.

Senator JOHNSON. Was that all he said at that time?

Mr. BRECK. That is all I recall.

Senator JOHNSON. Did you at that time know that he was to receive one-half of 1 per cent on the loan subsequently received by you?

Mr. BRECK. I thought I said that is what he—

Senator JOHNSON. That is what he said to you then?

Mr. BRECK. Yes.

Senator JOHNSON. Before that, did you know it?

Mr. BRECK. I tried to make it clear that we did not know he was in the syndicate of promoters until the spring of 1927 when we were negotiating the \$15,000,000 tobacco loan. The amount of his interest

at that time was not clear, and it was later worked out at the figure I have given you, and at that time it was agreed by the group that Juan Leguia would thereafter receive one-half of 1 per cent on the refunding loan.

Senator JOHNSON. How many times do you think you talked to his father, the President of Peru?

Mr. BRECK. Fifteen or twenty times.

Senator JOHNSON. You talked to him, I presume, concerning the floating of these loans, did you not?

Mr. BRECK. Yes, sir.

Senator JOHNSON. On no occasion did you ever suggest that his son was receiving one-half of 1 per cent, did you?

Mr. BRECK. No, sir.

Senator JOHNSON. Did you know that he knew it?

Mr. BRECK. No, sir.

Senator JOHNSON. You have seen it subsequently charged that he did, have you not?

Mr. BRECK. I do not know that I have.

Senator JOHNSON. You do not know that. What became of the bonds—those three issues?

Mr. BRECK. They were sold to the public.

Senator JOHNSON. Sold to the public. Have you any of them?

Mr. BRECK. No.

Senator JOHNSON. All sold to the American public?

Mr. BRECK. No. A certain proportion of them were sold—

Senator JOHNSON. I beg your pardon. There was some percentage that was stated by Mr. Strauss to have been sold in Europe. That is correct, is it not?

Mr. STRAUSS. Yes.

Mr. BRECK. Correct.

Senator JOHNSON. But the larger percentage of them, or the great percentage of them, were sold to the people of the American Republic, was it not?

Mr. BRECK. Yes.

Senator JOHNSON. Did you convey to anybody to whom you ever sold these bonds the fact that you were giving to the son of the President of Peru half a million dollars to get the right to sell these bonds to Americans?

Mr. BRECK. No.

Senator JOHNSON. Was there ever any indication of any kind or any sort given by you, in writing or otherwise, through the press or in any way, directly or indirectly, as to the transaction that occurred in relation to the payment to the son of the President of Peru for the purpose of obtaining the sale of these bonds by your house?

Mr. BRECK. No.

Senator JOHNSON. Why not?

Mr. BRECK. It is not customary.

Senator JOHNSON. It is not customary. Is the transaction such as you had a customary transaction with international bankers?

Mr. BRECK. I think it is quite customary for commissions to be paid in connection with financing.

Senator JOHNSON. Particularly South American loans.

Mr. BRECK. Yes.

Senator JOHNSON. Do you know that the payment of the loans, or the money that you obtained for the loans, from the American public, kept Leguia in office for a long period of time?

Mr. BRECK. I do not know it.

Senator JOHNSON. Do you know that he was regarded as one of the dictators of South American countries, do you not?

Mr. BRECK. Yes.

Senator JOHNSON. And that he was able to maintain himself by virtue of the funds you have obtained in the manner you have suggested.

Mr. BRECK. I do not know that.

Senator JOHNSON. You do not know that?

Mr. BRECK. I know that the loan was approved by the Congress of the Peruvian Government, and that it was passed upon by Peruvian lawyers.

Senator JOHNSON. Even the fact that it was passed upon by the Peruvian Congress and the Peruvian lawyers would not alter the facts in the matter, I assume, as to the dictatorship, would it?

Mr. BRECK. He had been President of Peru for some eight years, operating with a Congress elected in accordance with the constitution. We insisted that the loans be made a matter of public record, and approved by the Congress.

Senator JOHNSON. I am advised by certain gentlemen in Peru that the Government of Peru received approximately 80 per cent of the loan; that the Government is obliged to pay back the full amount plus 5 per cent interest; and that this means that the loan cost Peru not only interest of about 30 per cent but also the exchange, due to the depreciation in Peruvian currency. Do you know anything of those facts?

Mr. BRECK. I do not believe them. They are not true.

Senator JOHNSON. They are not correct?

Mr. BRECK. No.

Senator JOHNSON. Do you know what is the difference in the exchange at the present time?

Mr. BRECK. The exchange at the present time is 28 United States cents per sol.

Senator JOHNSON. By the way, on these Peruvian loans you advised the State Department, did you not?

Mr. BRECK. We did.

Senator JOHNSON. And you sought, as all the other firms seek, the negative approval of the State Department in reference to them?

Mr. BRECK. We did.

Senator JOHNSON. In advising the State Department, did you tell them that you were paying to the President's son half a million dollars or thereabouts to get the loans?

Mr. BRECK. We did not.

Senator JOHNSON. Did the State Department approve these loans to Peru; do you know?

Mr. BRECK. They sent us their customary letter.

Senator JOHNSON. That is, their customary letter saying that they had no objection?

Mr. BRECK. Yes.

Senator JOHNSON. What are the Peruvian bonds selling for on the market to-day?

Mr. BRECK. About \$7.

Senator JOHNSON. What was it you sold them to the American public for?

Mr. BRECK. The 6 per cent issue at 91½ and 91.

Senator JOHNSON. The 6 per cent issue at 91½ and 91. How about the 7 per cent issue?

Mr. BRECK. At 96, I believe.

Senator JOHNSON. I take it, Mr. Breck—

The CHAIRMAN. Senator Johnson, I just want to ask one question. I want to ask you what the general percentage is which you give or which your firm gives to the initiators of a loan to a foreign country or in this country, or any other loan that you may make. I mean the promoters that bring it to you. What is your general percentage paid in such a case?

Mr. BRECK. It depends on circumstances, Senator, and the amount of work that the promoter may do in bringing the business, but, generally speaking, we would consider one-half of 1 per cent to be a high commission. One-quarter of 1 per cent would be a fair commission, and anything less than one-quarter of 1 per cent would be considered a low commission.

The CHAIRMAN. You do not consider that there was very much work attached to this case, do you?

Mr. BRECK. One-half of 1 per cent is not an unreasonable commission, according to the general custom.

The CHAIRMAN. Have you made loans before this and charged one-half of 1 per cent?

Mr. BRECK. I think not, sir.

The CHAIRMAN. Or paid, I should say, one-half of 1 per cent?

Mr. BRECK. I think not.

The CHAIRMAN. This is the highest that you ever paid?

Mr. BRECK. I think so. We have paid a quarter of 1 per cent.

The CHAIRMAN. Is it the only one you ever paid one-half of 1 per cent on?

Mr. BRECK. I think the only foreign issue on which one-half of 1 per cent has been paid—that is, to individuals.

Mr. STAHL. Or do you mean to banking houses? Banking houses bring business to us, or banking agents in foreign countries might bring it to us.

The CHAIRMAN. No matter whether it is a banking agency or whether it is an association of individuals, the same as this was, is there any reason why you should have paid one-half of 1 per cent instead of one-quarter in this case?

Mr. BRECK. Because the business came charged with that size commission.

The CHAIRMAN. You mean that was their demand?

Mr. BRECK. Yes.

The CHAIRMAN. Has anyone else ever demanded one-half of 1 per cent?

Mr. BRECK. Yes.

The CHAIRMAN. And you then have agreed to it?

Mr. BRECK. I think not. This kind of arrangement is to be distinguished from the purchase of bonds, which we might make from another house. For instance, we have bought an issue of bonds from the house which itself had obtained them, at two points up.

The CHAIRMAN. That is an entirely different proposition. You were the first group, so called. You were the ones that advanced the money and put the loan under way.

Mr. BRECK. That is correct.

The CHAIRMAN. Has any loan of that same character, which your company has made, been charged with one-half of 1 per cent commission?

Mr. BRECK. I think not, sir.

The CHAIRMAN. This is the only one. Do you know the reason why one-half of 1 per cent, instead of one-quarter of 1 per cent, was paid?

Mr. BRECK. Because that was the arrangement made by those who had negotiated the loan when it came to us.

The CHAIRMAN. That was the demand made by them.

Mr. BRECK. That was the demand made by them.

Senator JOHNSON. Did I understand you to say—correct me if I am in error in the repetition of it—that you have paid other promoters sums for bringing you business of this sort?

Mr. BRECK. Yes.

Senator JOHNSON. Will you state to me any Latin American loan where you paid any promoters?

Mr. BRECK. The Republic of Costa Rica; the Department of Cauca Vally; Department of Cundinamarca—only South American, Senator?

Senator JOHNSON. I was talking about Latin America.

Mr. BRECK. Yes.

Senator JOHNSON. Those are all of Latin America?

Mr. BRECK. Yes.

Senator JOHNSON. Let us take them one at a time. First, the Republic of Costa Rica; you paid for promotion costs. Whom did you pay?

Mr. BRECK. An individual in Costa Rica.

Senator JOHNSON. Whom?

Mr. BRECK. Mr. Alvarado.

Senator JOHNSON. What was he?

Mr. BRECK. A Costa Rican citizen.

Senator JOHNSON. A mere citizen?

Mr. BRECK. So far as I know.

Senator JOHNSON. Did he undertake to obtain the loan for you?

Mr. BRECK. I do not well acquainted with the details, because that business was brought to us by this same house of Lisman, and the arrangements were made between them and Mr. Alvarado. We paid the amount they said he was entitled to. We, as syndicate managers, paid that amount.

Senator JOHNSON. How much?

Mr. BRECK. I do not recall, but it was something around \$25,000.

Senator JOHNSON. Have you an account with him on your books?

Mr. BRECK. No.

Senator JOHNSON. Why?

Mr. BRECK. He has never asked to open one.

Senator JOHNSON. How did you pay him?

Mr. BRECK. I do not recall the details. I think it was paid by the bank to whom we paid the money.

Senator JOHNSON. Do you have a receipt?

Mr. BRECK. I do not think we have.

Senator JOHNSON. You do not think you ever even had a receipt?

Mr. BRECK. I think the bank to whom we paid the money did.

Senator JOHNSON. What was Mr. Alvarado's business in Costa Rica?

Mr. BRECK. I do not know.

Senator JOHNSON. Where did he live—what particular place?

Mr. BRECK. San Jose, I believe.

Senator JOHNSON. You simply paid him \$25,000 for his services in aiding you to get the loan?

Mr. BRECK. As I say, I do not think we paid it to him. I think we paid it to a bank, which paid it to him.

Senator JOHNSON. Did you have any dealings with him at all?

Mr. BRECK. No; we did not.

Senator JOHNSON. You simply undertook to pay that when Messrs. Lisman & Co. came to you with the loan, is that correct?

Mr. BRECK. Yes; as an introductory commission.

Senator JOHNSON. As an introductory commission. Good heavens! Pardon me. I did not mean to indulge in the expletive, but are there introductory commissions, and then subsequent commissions, and then consummation commissions?

Mr. BRECK. I do not know of any, sir.

Senator JOHNSON. What do you mean by an introductory commission?

Mr. BRECK. When a promoter introduces a piece of business to bankers, he claims an introductory commission.

Senator JOHNSON. And Mr. Alvarado was a promoter?

Mr. BRECK. I do not know what his business is.

Senator JOHNSON. You have said that when a promoter presents a piece of business to a banker, he claims an introductory commission, and that was the commission that Mr. Alvarado obtained, was it not?

Mr. BRECK. Yes.

Senator JOHNSON. Do you pay introductory commissions often?

Mr. BRECK. Whenever a promoter brings a piece of business to us which we do, we pay him an introductory commission.

Senator JOHNSON. All right. We have got the——

The CHAIRMAN. Is that in addition to the regular percentage?

Mr. BRECK. The same thing.

The CHAIRMAN. It is taken out of the regular percentage, isn't it, or is it an additional percentage paid?

Mr. BRECK. No. The bankers pay it out of their profits as commission to the person who brings the business to them. It is no different from any other commission. I simply characterized it as a promoter's commission, or introductory commission.

Senator JOHNSON. All right. We have, to Mr. Alvarado, whom you do not know, and never met, I assume, an introductory commission of \$25,000 on the Costa Rican loan.

Mr. BRECK. I am not sure of that figure, Senator. I would have to consult my records to find out.

Senator JOHNSON. Would you give the exact figure, please, to the reporter at your convenience? That was before the loan was consummated, of course, I assume?

Mr. BRECK. After the loan was consummated.

Senator JOHNSON. After the loan was consummated, and before you sold it, I presume?

Mr. BRECK. After it had been sold and paid for.

Senator JOHNSON. You purchased that Costa Rican loan at what price?

Mr. BRECK. Eighty-eight, I think.

Mr. STAHL. Eighty-eight.

Senator JOHNSON. You sold it to the American public at what price?

Mr. STAHL. Ninety-five and one-half.

Senator JOHNSON. Ninety-five and one-half, or a  $7\frac{1}{2}$  per cent spread. Did you advise the State Department of the fact that you were making that loan?

Mr. STAHL. Yes.

Mr. BRECK. Yes.

Senator JOHNSON. Was there anything said about Mr. Alvarado in connection with that?

Mr. BRECK. No.

Senator JOHNSON. The next one you mentioned, where you paid a commission, was the Department of Cauca Valley, as I understand it?

Mr. BRECK. Yes.

Senator JOHNSON. How much commission did you pay in the case of the Department of Cauca Valley?

Mr. BRECK. I do not recall, sir.

Senator JOHNSON. To whom did you pay it?

Mr. BRECK. My recollection is that it was to a New York firm, but I would have to consult my records on that.

Senator JOHNSON. I am not speaking of the step-up price, or what sum you paid subsequently to obtaining it, but you initiated the Department of Cauca Valley loans, as I understand it. That has been testified by Mr. Strauss.

Mr. BRECK. We headed the business, Mr. Strauss said. The business was initiated and found by Baker, Kellogg & Co., who brought the business to us.

Senator JOHNSON. Are they the ones you paid the commission to?

Mr. BRECK. I would have to consult my records to find out.

Senator JOHNSON. You do not know the amount of the commission?

Mr. BRECK. I do not.

Senator JOHNSON. Those two loans were to a political subdivision of Colombia, as has been testified to here—Cauca Valley; is that correct?

Mr. BRECK. That is correct.

Senator JOHNSON. What I want to ask you is this: What you have done in relation to the payment of commissions to various brokers, individuals, and the like, to furnish you the business, has been the course of business with all international bankers respecting South American loans or Latin American loans?

Mr. BRECK. I can not speak for the others. I understand it is the custom.

Senator JOHNSON. There was such keen competition among international bankers to obtain the business of South America, and to sell

its securities in the American market, that they paid commissions to promoters, and the like, in order to get it; is that correct?

Mr. BRECK. I think it has been so as long as I remember. I understand it to have been the custom in London before the War.

Senator JOHNSON. Are you justifying it because it was an English custom?

Mr. BRECK. I am not justifying it at all. I am stating the facts.

Senator JOHNSON. That is what I am asking—that, and that alone, as to the facts. Did you have any competition in obtaining the Peru loans?

Mr. BRECK. Yes; there was competition.

Senator JOHNSON. By whom?

Mr. BRECK. At various times in the course of our Peruvian negotiations, which extended over a long period of time, representatives of one or another American banking house called in Lima, called on the President and offered their services to him in handling the country's financing, and we were told that he told them that he was satisfied with the relations he had with his bankers, and did not wish to change.

Senator JOHNSON. When you floated the loans of \$15,000,000, \$50,000,000, and \$85,000,000, respectively, you made, as Mr. Strauss has testified here, a subsequent agreement with the various banking houses. You had your first syndicate with them, did you not?

Mr. BRECK. Correct.

Senator JOHNSON. Those houses—I do not know whether they were stated by Mr. Strauss or not. Can you recall from memory who were in with you upon this \$10,000,000 loan, after the first steps were taken by you, and you became its sponsors?

Mr. BRECK. I think you mean, Senator, the appearing group, the ones whose names appeared on the circular.

Senator JOHNSON. Call it that. That is the subsequent syndicate, as I understand it, not the original syndicate.

Mr. BRECK. Yes.

Senator JOHNSON. The original syndicate consisted of a few bankers in New York City?

Mr. BRECK. That is correct.

Senator JOHNSON. All right. Will you give me their names?

Mr. BRECK. J. & W. Seligman & Co., the National City Co., F. J. Lisman & Co., and the Central Union Trust Co. The groups that appeared on the circular and who are generally considered the sponsors of the issue, included, in addition, Blyth Witter & Co. and the Guaranty Co. of New York.

Senator JOHNSON. Did you state to any one of these associates of yours—

Mr. BRECK. I beg your pardon, Senator. The Guaranty Co. of New York did not appear on the circular. They had an interest in the business, but did not appear on the circular.

Senator JOHNSON. All right.

Mr. BRECK. Nor did the Central Union appear on the circular.

Senator JOHNSON. We will get the circular in evidence, so that you need not worry on that score. We will get that accurately. Did you disclose to any one of your associates who were thus acting with you in selling to the American public \$100,000,000 worth of

Peruvian bonds that you were obligated to pay, or that you had paid, or that you intended to pay, to the son of the President of Peru substantially half a million dollars for obtaining the business?

Mr. BRECK. No.

Senator JOHNSON. You told none of them?

Mr. BRECK. F. J. Lisman & Co. knew, because they and we had made the agreement.

Senator JOHNSON. Eliminating Lisman, did you tell the National City Bank?

Mr. BRECK. No.

Senator JOHNSON. Were they familiar with the facts?

Mr. BRECK. I think not.

Senator JOHNSON. Have you ever—what is it, Mr. Strauss?

Mr. STRAUSS. I thought he was making an error.

Senator JOHNSON. Surely.

Mr. STRAUSS. But evidently I was wrong.

Senator JOHNSON. I want you to correct—any one of the three of you—any error that any of us falls into. I have no desire to get into any error.

You knew that the President of the Republic of Peru and his son were in difficulties, did you not, among which was this particular charge that had been made, and the amount that had been paid by you for these loans?

Mr. BRECK. You refer to the action of the revolutionary tribunal, the trial of the President and his son?

Senator JOHNSON. Yes.

Mr. BRECK. Yes; we read about that.

Senator JOHNSON. Has not the National City Bank, or any other of your companions in putting these loans out to the American public, ever talked to you concerning the matter?

Mr. BRECK. They have not.

Senator JOHNSON. Nor have you talked to any of them in relation to it?

Mr. BRECK. We have not.

Senator JOHNSON. Go ahead, Mr. Strauss.

Mr. STRAUSS. I was just asking Mr. Breck—I am not very familiar with the details on that. I thought perhaps he had dropped into an error, but he says he has not.

Senator JOHNSON. All right. If you think he has, go ahead and correct him. That is all right.

Mr. STRAUSS. No. I will let him stand on his own statement.

Senator JOHNSON. Will you state whether or not, during the negotiations for the loans to Peru, the negotiations which you or your establishment held with the President of Peru, there was any delay or any difficulty conditioned upon the payment of the money that you were obligated to pay to the son of the President of Peru?

Mr. BRECK. There was not.

Senator JOHNSON. Was there any delay or any difficulty that transpired at all after you had paid the money to the son of the President?

Mr. BRECK. I know of no delay or difficulty.

Senator JOHNSON. Were you held up when you began the negotiations with the President of Peru that you have described that you

personally had with him in respect to these loans? Were there delays that were occasioned?

Mr. BRECK. No.

Senator JOHNSON. Were there any difficulties encountered?

Mr. BRECK. None; more than the usual disagreement between the borrower and the lender as to the terms and conditions of how the money should be spent. We insisted on a strict control and he wanted freedom of expenditure.

Senator JOHNSON. I am going to come to that question of expenditure pretty soon, but there was nothing more than that?

Mr. BRECK. No.

Senator JOHNSON. Do you know whether or not such difficulties as there were suddenly ceased with the payment of the sum to the son of the President of Peru?

Mr. BRECK. No money was paid to him until after the bonds were bought and sold.

Senator JOHNSON. Not until after you had actually put them on the market?

Mr. BRECK. No.

Senator JOHNSON. Was any sum at all paid to him before?

Mr. BRECK. No, sir.

Senator JOHNSON. Was any credit given to him before?

Mr. BRECK. No, sir.

Senator JOHNSON. Was there any entry on your books indicating any credit to him?

Mr. BRECK. No, sir.

Senator JOHNSON. Prior to the time of the disposition of these bonds in the American market—

Mr. BRECK. Senator, I have stated that we have paid him a sum when the tobacco bonds were sold. Thereafter he was paid nothing until the first series of 6 per cent bonds were sold. Thereafter he was paid nothing until the second series of 6 per cent bonds were sold.

Senator JOHNSON. I see. Do you remember how much it was you paid after the tobacco bonds were sold?

Mr. BRECK. \$50,000.

Senator JOHNSON. That was the first payment that was made by you to the son of the President of Peru?

Mr. BRECK. That is right.

Senator JOHNSON. At that time did you make any payment to Mr. Bolster, or to Mr. Maginnis, or to Mr. Salt?

Mr. BRECK. Payment was made, as I recall, by F. J. Lisman & Co. to Mr. Bolster, and we made a payment to Mr. Maginnis.

Senator JOHNSON. That is, after the first issue of tobacco bonds?

Mr. BRECK. That is right.

Senator JOHNSON. How much did you pay Maginnis?

Mr. BRECK. \$40,000.

Senator JOHNSON. That was your total payment to Maginnis, then?

Mr. BRECK. It was.

Senator JOHNSON. What did you pay Bolster, or what did Lisman pay Bolster at that time?

Mr. BRECK. My recollection is it was \$10,000, but we did not have anything to do with it.

Senator JOHNSON. You had nothing to do with that payment?

Mr. BRECK. No.

Senator JOHNSON. Did you pay Salt anything at that time?

Mr. BRECK. No.

Senator JOHNSON. Nothing at all. But Maginnis was paid his full \$40,000?

Mr. BRECK. Yes.

Senator JOHNSON. All right. After the second loan was floated, the second loan being floated in December, 1927, for \$50,000,000, did you make any payments?

Mr. BRECK. We did.

Senator JOHNSON. Did you make any to Bolster?

Mr. BRECK. Yes; to his estate.

Senator JOHNSON. That was to his estate, then?

Mr. BRECK. Yes.

Senator JOHNSON. After that second loan?

Mr. BRECK. He had died.

Senator JOHNSON. You paid him in full then, or you paid it to his estate at that time?

Mr. BRECK. That is right.

Senator JOHNSON. Did you make any payment to Maginnis?

Mr. BRECK. No.

Senator JOHNSON. Did you make any payment to Salt then?

Mr. BRECK. No.

Senator JOHNSON. Did you make any payment after that second loan to the son of the President of Peru?

Mr. BRECK. Yes.

Senator JOHNSON. What was that payment?

Mr. BRECK. \$192,600.

Senator JOHNSON. After the third loan you had already paid Bolster, then, in full, had you not?

Mr. BRECK. Yes.

Senator JOHNSON. You had already paid Maginnis in full?

Mr. BRECK. Yes.

Senator JOHNSON. Had you paid Salt?

Mr. BRECK. No.

Senator JOHNSON. After the third loan did you pay Salt?

Mr. BRECK. Yes.

Senator JOHNSON. You gave him that \$10,000?

Mr. BRECK. Yes.

Senator JOHNSON. What did he do—make a demand upon you for it?

Mr. BRECK. My recollection is—I was in Peru at the time—my recollection is that there had been some understanding between him and his firm, F. J. Lisman & Co., that he was to get a commission plus his salary. F. J. Lisman & Co. told us of that arrangement at the time, and he was paid \$10,000.

Senator JOHNSON. How much was the payment that was made to Leguia, the son of the President of Peru, after that third loan?

Mr. BRECK. \$173,600.

Senator JOHNSON. Have you ever made any further payments to him?

Mr. BRECK. No.

Senator JOHNSON. Those constitute all the payments that you have made to Leguia?

Mr. BRECK. Yes.

Senator JOHNSON. To either Leguia?

Mr. BRECK. We made payments only to Juan Leguia.

Senator JOHNSON. You made none to any other members of the family?

Mr. BRECK. No.

Senator JOHNSON. Mr. Chairman, do you want to take a recess until 2 o'clock?

The CHAIRMAN. Are you through with the witness?

Senator JOHNSON. No; Mr. Chairman. I am not through. I have gone through only a few of these loans.

The CHAIRMAN. The committee will stand in recess until 2 o'clock. (Whereupon, at 12 o'clock noon, the committee recessed until 2 o'clock p. m.)

#### AFTER RECESS

The hearing was resumed at 2 p. m., at the expiration of the recess.

The CHAIRMAN. The committee will come to order. We will proceed with the hearing.

#### TESTIMONY OF FREDERICK STRAUSS AND HENRY C. BRECK, PARTNERS, NEW YORK CITY; AND LIONEL STAHL, OF J. & W. SELIGMAN & CO., NEW YORK CITY—Resumed

(These witnesses were sworn by the chairman of the committee at the morning session.)

The CHAIRMAN. You may proceed, Senator Johnson.

Mr. BRECK. Might I at this point repeat what I have said before, with a view to clarity—

The CHAIRMAN (interposing). What is that?

Senator JOHNSON. Mr. Breck wishes to make a little statement for the record, and I told him I certainly should be very glad for him to make any statement he desired.

The CHAIRMAN. Proceed.

Mr. BRECK. I just wanted to say that I was speaking from memory in this case, and while to the best of my knowledge and belief what I have said is as I have said it, I wanted Senator Johnson to know that I would be glad to confirm any of these things by reference to the records. At the present time I merely wanted to have him understand that I was speaking from memory; that several of the events mentioned were distant in years and therefore it is a question of memory. And also there might be some misunderstanding on the part of some members of the committee, although I think not on your part, Senator Johnson, about the phrase "introductory commission" which I used. It does not mean another kind of commission, but simply another means of characterizing a commission paid to an intermediary. It may be called introductory commission, or intermediary commission, or other kind of commission, depending upon usage. It does not mean one of several commissions, but the same general kind of commission.

The CHAIRMAN. I think that was understood by all of the members of the committee.

Mr. BRECK. All right.

Senator JOHNSON. I had asked you about the commissions that you had paid in two instances. I think we had spoken of Costa Rica, in which you said that some gentleman named Alvarado was paid \$25,000 by you. Is that correct?

Mr. BRECK. Approximately that. It was something like three-tenths of 1 per cent.

Senator JOHNSON. Can you describe to the committee any better who Mr. Alvarado was?

Mr. BRECK. Senator Johnson, I never met Mr. Alvarado. All I know is that he was an individual who was said by the people who brought the business to us as being entitled to a commission for having originated it or brought it to them.

Senator JOHNSON. Do you know whether or not he had held public office in Costa Rica?

Mr. BRECK. I never heard of it if he did.

Senator JOHNSON. Do you know his first name?

Mr. BRECK. No, sir.

Senator JOHNSON. Do you know anything about the business in which he was engaged?

Mr. BRECK. No.

Senator JOHNSON. You simply know that a man named Alvarado was stated to you as being entitled to a commission, and that that commission you paid?

Mr. BRECK. Yes; not to him but to the bank that transmitted it to him.

Senator JOHNSON. That was to a bank in Costa Rica?

Mr. BRECK. No; a bank in New York transmitted it.

Senator JOHNSON. What bank?

Mr. BRECK. I think it was the Central Hanover Trust Co., that transmitted the draft to him.

Senator JOHNSON. Did he draw a draft upon you?

Mr. BRECK. No; he did not.

Senator JOHNSON. Somebody in New York must have stated to you, then, that you must assume and pay that commission?

Mr. BRECK. That is correct.

Senator JOHNSON. Very well. Who was that person?

Mr. BRECK. The people who originated the business and brought it to us.

Senator JOHNSON. And who were they?

Mr. BRECK. F. J. Lisman & Co.

Senator JOHNSON. Now as to the department of Cauca Valley loan, and did you pay a commission on them?

Mr. BRECK. I think so.

Senator JOHNSON. Cauca Valley is in the Republic of Colombia?

Mr. BRECK. Yes, sir.

Senator JOHNSON. To whom did you pay that commission?

Mr. BRECK. My recollection is not clear on that. I think it was paid to a group or an individual in New York.

Senator JOHNSON. All right. Who was it, group or individual?

Mr. BRECK. I do not remember. I will be glad to let you know that after consulting my records.

Senator JOHNSON. If you will do that, I will thank you.

Mr. BRECK. All right.

(See exhibits at conclusion of testimony.)

Senator JOHNSON. How did you learn that any individual in Colombia was entitled to a loan?

Mr. BRECK. Do you mean, was entitled to a commission?

Senator JOHNSON. Yes; I meant a commission.

Mr. BRECK. In connection with the department of Cauca Valley loans?

Senator JOHNSON. Yes.

Mr. BRECK. From the people who brought the business to us in New York.

Senator JOHNSON. Was that F. J. Lisman & Co.?

Mr. BRECK. No; it was Baker, Kellogg & Co., who brought the Cauca Valley business to us.

Senator JOHNSON. They simply told you that somebody was entitled to a commission?

Mr. BRECK. That is right.

Senator JOHNSON. Did they exhibit to you any agreement or contract in respect to it?

Mr. BRECK. They did not to me. I did not handle that particular issue, but my recollection is that there was none such. For example, they simply said that they were committed to pay a commission to this individual, and we as the manager of the groups paid the commission.

Senator JOHNSON. Were the individuals residents of the Republic of Colombia?

Mr. BRECK. I am not clear on that. I think not. I think they were paid to individuals in New York, who brought the business up to New York from Colombia. Senator Johnson, I do not know whether you know or not, but as I understand the situation it was customary in the case of South American loans in the early days, when they were being financed here in the United States, for the Government to entrust to some individual in the country concerned the task of coming to New York and negotiating the loan for the province, state, or municipality, and that individual was paid a commission for doing that business.

Senator JOHNSON. That is, if I follow you now—take the instance of Colombia with its loans—they would entrust to some local resident the matter of negotiating for the loans, and he would come to New York and see about it; is that what you mean?

Mr. BRECK. Yes. I was never able to establish that a Government ever went so far as to give to an individual what we would call distinct legal power to negotiate for it. We always asked when these promoters came in with business whether they had full authority from the Government to act. And I was never able to discover any such authority. What did happen, apparently, was this: That the Government or the finance minister and the individual concerned had talked the matter over, and the individual concerned was told by the finance minister, or perhaps he told the finance minister, that he was going up to New York to see what he could do toward getting a loan for the entity concerned, and that the finance minister said: "All right; go and try your luck and see what you can do. If you

can get it on proper terms—approximately this, that, or the other thing—we will give a loan to the bankers, provided they are responsible in our view.” That was usually the beginning of the negotiations.

Senator JOHNSON. Now, it was to that kind of individual, for his work of acting in the matter, you would pay a commission to?

Mr. BRECK. Yes; if as a result of his bringing the business to our attention and his helping us in the negotiations we got the business and offered it to the public, we paid him the usual commission which, as I say was anywhere from a quarter to one-half of 1 per cent of the principal amount of the issue.

Senator JOHNSON. Of course, when he first came to you he represented the Government concerned, did he not?

Mr. BRECK. No; not necessarily.

Senator JOHNSON. What do you mean by “No; not necessarily”?

Mr. BRECK. Because he would come saying that he felt sure from his relations with the Government officials, and his knowledge of the situation there, that X department was anxious to have a loan, say, of \$10,000,000, and that if it could be obtained under approximately these terms from the bankers, he thought the state or city or municipality, whatever it might be, was willing to borrow. The bankers would then in some cases carry on the preliminary negotiations through that intermediary, telling him what they were willing to do. He would then cable down to the department or state concerned, and when it became clear that there was a meeting of minds approaching, the negotiations so far as we were concerned were always thereafter carried on directly between the Minister of Finance or other duly accredited representative of the Government or department and ourselves.

Senator JOHNSON. That is, the intermediary had brought you in touch with the Minister of Finance or other representative of the Government?

Mr. BRECK. Yes, sir.

Senator JOHNSON. That is correct, is it not?

Mr. BRECK. Yes, sir.

Senator JOHNSON. And that intermediary came either from the Minister of Finance or other representative of the Government?

Mr. BRECK. Not necessarily.

Senator JOHNSON. What do you mean by the answer, “Not necessarily”? Do you mean he came out of circumambient atmosphere and stated to you, “There is a loan down there in South America or in Central America that you can get,” and that thereupon you agreed to pay him a commission that would aggregate a considerable sum of money?

Mr. BRECK. He came in many cases as an individual anxious to develop business. He would say that he felt he could—

Senator JOHNSON (interposing). Develop whose business?

Mr. BRECK. Become the intermediary for a loan to a South American state or republic, or municipality.

Senator JOHNSON. Were there many such people running around?

Mr. BRECK. A great many of them.

Senator JOHNSON. Did they deal with all the international bankers in New York, substantially I mean?

Mr. BRECK. I think so.

Senator JOHNSON. And there were men there in New York from South American republics and South American governments and Latin-American governments?

Mr. BRECK. They were also Americans who had friends down there, and who went down and investigated the situation and came back. In fact, more often than not they were Americans.

Senator JOHNSON. More often than not Americans would come in and say, for instance: "The Republic of Colombia may want a loan of \$10,000,000, and we will go down and see about it." And you would say: "We will see about paying you for it."

Mr. BRECK. That is right. In other words, the individual in question would usually say: "I have reason to believe this loan can be obtained. I will undertake to negotiate it for you, or bring you in touch with the Minister of Finance, and my price is going to be so-and-so." He would usually start out with 1 per cent or 2 per cent of the principal amount of the loan. We would say: "That is an unreasonable amount. We usually pay from one-quarter to one-half of 1 per cent." That was the usual way of handling it.

Senator JOHNSON. That was the usual way of doing business with Latin American and South American republics?

Mr. BRECK. I think so.

Senator JOHNSON. It was not only your usual way of doing business with them, but it was the usual way of doing business as conducted by all these other gentlemen in dealing in securities of Latin America and South America?

Mr. BRECK. That is what I understand to have been the custom, and for hundreds of years, in the floating of Latin American government loans.

The CHAIRMAN. With European governments as well?

Mr. BRECK. Yes; with England, France, Holland, and everybody who made governmental loans.

Senator JOHNSON. Is that the way government loans have been made in the last few years with Germany?

Mr. BRECK. Well, we have made none ourselves, but I understand it has been done in that way.

Senator JOHNSON. That is, that there were intermediaries who sold those large loans to Germany and who received a commission from the international bankers upon them?

Mr. BRECK. I should not be surprised. I think it is quite the normal way.

Mr. STRAUSS. What loans do you refer to?

Senator JOHNSON. I am speaking of loans in which either the German Government or political subdivisions might be interested or guarantors of.

Mr. STRAUSS. And of corporations?

Senator JOHNSON. Corporation loans and the like.

Mr. BRECK. Yes, sir.

Senator JOHNSON. That was the usual mode?

Mr. BRECK. That was the usual method.

Senator JOHNSON. Now I want you to be very certain about that. That is your view of it, is it not?

Mr. BRECK. That is my view of it.

Senator JOHNSON. And then they were shot out to the American public?

Mr. BRECK. The bonds were purchased to be sold to the public.

Senator JOHNSON. Now, you are unable to state the name or names of any individual or individuals who were engaged as intermediary or intermediaries in the loans to the department of Cauca Valley?

Mr. BRECK. I do not recall.

Senator JOHNSON. But you can obtain that information from your records?

Mr. BRECK. I am quite sure.

Senator JOHNSON. And if there are any writings in respect to any of those individuals, those writings you will furnish to us also, or copies of them?

Mr. BRECK. You mean relating to the commission, the amount paid, and the receipt of it, and that kind of thing?

Senator JOHNSON. That is what I am speaking of exactly.

Mr. BRECK. All right.

(See exhibits at conclusion of testimony.)

Senator JOHNSON. Now, what was the next loan that arose in which you had dealings with an intermediary or paid a commission? By the way, do you know what commissions you paid in the case of the Cauca Valley loans?

Mr. BRECK. How much was paid?

Senator JOHNSON. Yes.

Mr. BRECK. I do not recall.

Senator JOHNSON. What was the next one that you placed?

Mr. BRECK. The next loan?

Senator JOHNSON. In which you had an intermediary, or in which you paid a commission.

Mr. BRECK. If my recollection is correct, I think we paid a commission in practically every foreign loan that we made.

Senator JOHNSON. In the case of every foreign loan you made?

Mr. BRECK. Yes, sir.

Senator JOHNSON. That is, you paid to some individual who came to you in the manner you have suggested, a commission, is that correct?

Mr. BRECK. That is correct. Now let me make sure that you understand that the commission was paid by somebody and to somebody. We often paid it to the banking house which brought the business to us, we paid as group managers, deducting from the gross proceeds of the business this expense or commission, which was charged to the profits of the business.

Senator JOHNSON. Do not let us have any misconception. I am not speaking of any commissions paid to banking houses that participated in the loan with you.

Mr. BRECK. No; nor am I.

Senator JOHNSON. I am speaking of something that was paid to people who were strangers to the actual distribution and sale of the loan; people who in the first instance came to you in respect of the loan from the government, from the finance minister or whoever it might be in the particular locality, and talked to you concerning the loan, and which loan subsequently by your own endeavors you obtained.

Mr. BRECK. We did very little of that kind of business.

Senator JOHNSON. I thought you said you did no other.

Mr. BRECK. Apparently we do not understand each other.  
Senator JOHNSON. Then let us go over it again and try to get it straight.

Mr. BRECK. We had very few direct dealings with individuals. Nearly all of the business brought to us was brought by other banking houses. We would take over the negotiations from them, and negotiate the matter and head the business and manage the syndicate. There were a few instances, such as I now recall the Mortgage Bank of Yugoslavia, where I think we conducted the original negotiations—no, that again was brought to us from London, by a banking house in London, and the man who introduced the business to them was paid a commission by the managers when the loan was completed.

Senator JOHNSON. And do you know who that was?

Mr. BRECK. Yes.

Senator JOHNSON. Who was it?

Mr. BRECK. An individual named Kagan.

Senator JOHNSON. Where did he come from?

Mr. BRECK. From Russia originally, I believe.

Senator JOHNSON. Was he a resident of Yugoslavia?

Mr. BRECK. At the time; yes.

Senator JOHNSON. And he was engaged in what occupation?

Mr. BRECK. I think he was a promoter. He acted for certain London groups, certain Paris groups, and in this particular instance he acted for us.

Senator JOHNSON. Do you know what commission he was paid?

Mr. BRECK. I do not recall offhand. I think it was something like a quarter to three-eighths of 1 per cent. But I will be glad to send that, too, if you like.

Senator JOHNSON. Send that to us as well, if you please.

(See exhibits at conclusion of testimony.)

Senator JOHNSON. We have Yugoslavia now dealing in exactly the same fashion as Latin America, have we not?

Mr. BRECK. Yes.

Senator JOHNSON. All right. Next we have the Province of Caliao. A loan of \$1,500,000, with a spread of 6.5 per cent. Do you recall that?

Mr. BRECK. Yes, sir.

Senator JOHNSON. Did you deal with an intermediary there?

Mr. BRECK. That business was brought to us by another banking house, Alvin Frank & Co., of California. Mr. Frank having been in Peru, arranged the loan, and he came up here and discussed it with us, and we agreed to issue it with him and for him. He had agreed to pay certain commissions in connection with it, which were taken over by us as syndicate managers and paid as I recollect to Mr. Frank, who in turn paid them to the persons he had agreed to pay them to.

Senator JOHNSON. And who was that?

Mr. BRECK. I do not recall.

Senator JOHNSON. Will your records show?

Mr. BRECK. I think so. They will show payment to Mr. Alvin Frank, anyway.

Senator JOHNSON. If you can state the name of the individual to whom the commission was paid I wish you would furnish it hereafter, to be sent with the other matters that we have referred to.

Mr. BRECK. All right.

Senator JOHNSON. How much was the commission that was paid in that case?

Mr. BRECK. I do not recall the amount.

(See exhibits at conclusion of testimony.)

Senator JOHNSON. How about the Province of Callao loan? Has it been paid or redeemed? Has the interest been paid?

Mr. BRECK. The interest went into default January 1, last.

Senator JOHNSON. Where is that?

Mr. BRECK. That is the Peruvian Province in which the Port of Callao is located.

Senator JOHNSON. Do you know for what purpose that loan was issued?

Mr. BRECK. For building a new market place, and for paving streets, and for redeeming certain internal issues.

Senator JOHNSON. Subsequent to your selling of these loans to the American people did you ever follow them up to see how the money was expended in Peru?

Mr. BRECK. We did the best we could in an informal way. We had no control over the proceeds. We asked them how they spent it. We did actually see some of the work being done, but we had no way of following up and seeing how each dollar was expended.

Senator JOHNSON. Will you state whether or not a great deal of it was wasted?

Mr. BRECK. I do not know.

The CHAIRMAN. Have you put into the record at any place a list of all of your foreign loans?

Senator JOHNSON. He has already done that, Mr. Chairman.

Mr. BRECK. Yes; we have done that.

The CHAIRMAN. You put them in at the beginning of the testimony?

Mr. BRECK. Yes, sir.

The CHAIRMAN. I wanted to be sure about that.

Mr. BRECK. Yes, sir.

Senator JOHNSON. When was this Province of Callao loan purchased by you?

Mr. BRECK. The date of the issue was May, 1927.

Senator JOHNSON. When was it disposed of?

Mr. BRECK. It was bought and sold in that same month.

Senator JOHNSON. And bought at what price?

Mr. BRECK. Bought at 92½ and offered to the public at 99.

Senator JOHNSON. You have none of these securities now, I assume?

Mr. BRECK. No, sir.

Senator JOHNSON. Now we will take the Mortgage Bank of Bogota.

Mr. BECK. Senator Johnson, before you leave Peru, I should like to add to one thing you reported this morning.

Senator JOHNSON. All right.

Mr. BECK. Some one from Peru mentioned the cost of the money to them and the relation thereof to exchange depreciation. I should

like you to know that the Republic of Peru received the full purchase price named in the contract for the bond, 86 per cent, of the principal amount; that the actual cost of the money to the Republic of Peru of slight over seven per cent might not be fully understood unless explained; that in connection with the service charges on the bonds which were issued to redeem outstanding bonds, they were slightly over \$1,000,000 less than the service charge on the bonds redeemed. So that there was an actual saving to the Republic of a million dollars a year on the refunding operation. And with that situation I am wholly unable to understand the figures in the report which came to you from Lima as to the cost of the money. Exchange depreciation has nothing whatever to do with the cost of money to the Republic at the time it was borrowed. The fact that their currency has depreciated since is no different than in the case of England or the Scandinavian countries which have recently gone off the gold standard, and who find it harder to take care of their external debts made in gold dollars at the terms fixed.

On the matter of supervision of proceeds, I think I mentioned this morning that in Peru we tried wherever possible to supervise the expenditure of the proceeds, and were successful to a large extent by segregating in our own hands, first, the sums required for redemption, and then for public works, and then for refunding some serial dollar notes that they had. But we were not able to supervise in detail the public works expenditures, although we did require a schedule to be furnished in advance, and although the Republic at our suggestion published once a month in the official gazette the exact expenditures for public works out of those proceeds.

Senator JOHNSON. As to the control you had in the manner you have indicated, how did you maintain that control? Did the money remain with you?

Mr. BRECK. It did.

Senator JOHNSON. How long did the money remain with you?

Mr. BRECK. Until it was paid out in accordance with the contract.

Senator JOHNSON. Tell it to us substantially, I mean in years or months.

Mr. BRECK. The public works money was paid out at the rate of \$750,000 monthly until it was exhausted.

Senator JOHNSON. And that would cover how long a period of time?

Mr. BRECK. Anywhere from a year to fourteen or eighteen months.

Senator JOHNSON. And during that period the amount of the loan remained with you.

Mr. BRECK. Yes, sir. The proceeds allocated to that purpose remained on deposit with us and with the City Bank.

Senator JOHNSON. With what City Bank?

Mr. BRECK. With the National City Bank of New York.

Senator JOHNSON. What amount of money, so far as you recall, after the sale of these bonds remained with you or the National City Bank?

Mr. BRECK. I would have to consult the records on that.

Senator JOHNSON. I am asking you to state it approximately. Give the best recollection you have.

Mr. BRECK. Well, practically all of it except the first monthly installment of \$750,000.

Senator JOHNSON. Well, that or some balance of it remained with you for a period of from a year to two years as the case may be?

Mr. BRECK. Yes.

Senator JOHNSON. I see that both of your associates, Mr. Strauss and Mr. Stahl, are trying to tell you something, but I do not know what it is.

Mr. BRECK. Senator Johnson, they are trying to tell me that the money which was retained from the proceeds of the loan was retained for several purposes. As I have mentioned before, one was refunding. The money for refunding was kept with us until the bonds could be called under the terms of the contract, and then was paid out, some of it 30 days, and some 60 days or 90 days later. The money for the Callao Harbor was paid out in accordance with the terms of the contract between the Republic and Snare & Co., the contractors. It was a deposit that was in our hands and that we paid out as any banker would on the order of a client. The money for the public works was the principal category and was paid out at the rate of \$750,000 a month.

Senator JOHNSON. Did you pay them anything for the use of the money?

Mr. BRECK. We paid the rate allowed by the New York Clearing House for similar deposits.

Senator JOHNSON. And what was that?

Mr. BRECK. That varied. At the beginning it was 2 per cent—well, I think for the greater part of the time it was 2 per cent.

Senator JOHNSON. What was the maximum length of time that the money remained with you? Can you state that?

Mr. BRECK. I can not state it offhand. My recollection is that it was about 18 months or so; that some of it remained as long as that.

Senator JOHNSON. Now, when those that you are speaking of, and you are speaking of these 6 per cent loans now of Peru?

Mr. BRECK. Yes.

Senator JOHNSON. \$85,000,000?

Mr. BRECK. Yes, sir.

Senator JOHNSON. And you are speaking also of the Province of Callao. How do you pronounce that?

Mr. BRECK. Callao.

Senator JOHNSON. That \$1,500,000 which remained with you in the fashion you have mentioned while you were paying out the warrants of the contractor?

Mr. BRECK. Yes. I think, however, the most of that was paid out quite promptly.

Senator JOHNSON. And the name of the contractor was Snare & Co., I believe?

Mr. BRECK. Yes; for the docks.

Senator JOHNSON. Let us now get to the Mortgage Bank of Bogota. That was a \$3,000,000 loan, with a 4½ per cent spread, and you made out of \$135,000. What was that loan?

Mr. BRECK. It was a loan made to the Mortgage Bank of Bogota, and they used the proceeds for the purchase of mortgages in Colombia.

Mr. JOHNSON. Did you have an intermediary there?

Mr. BRECK. I think so; yes.

Senator JOHNSON. Who was it?

Mr. BRECK. I think his name was Borda, a Colombian.

Senator JOHNSON. Did he come to you with that particular loan?

Mr. BRECK. He did not. He came to the Central Union Trust Co. at that time. Its representative was in Colombia at the time and discovered the business and asked us if we would like to do it, and we said we would, and Mr. Borda received the customary intermediary commission.

Senator JOHNSON. What did he receive?

Mr. BRECK. I think it was 15 per cent on our net originating profits, which is another way of measuring the commission at times. I think it averaged about three-eighths of 1 per cent, or between one-quarter and three-eighths of 1 per cent.

Senator JOHNSON. Of the total loan?

Mr. BRECK. Yes.

Senator JOHNSON. Did the State Department ever ask you to make a loan to Nicaragua?

Mr. BRECK. I think Mr. Strauss might answer that.

Senator JOHNSON. Do you recall that, Mr. Strauss?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. Tell us about that.

Mr. STRAUSS. Toward the end of the Taft administration—

Senator JOHNSON (interposing). Oh; it was back there, was it?

Mr. STRAUSS. Yes. The State Department, and I think Mr. Knox was still the Secretary of State; but soon after that he was succeeded, I think by Huntington Wilson, the Under Secretary of State. As you will probably recall, there was appointed, either by the United States or with the approval of the United States, an American to advise Nicaragua as to what to do with its disordered financial and economic condition. The name of the gentleman appointed will occur to me in a moment. He went down there and looked into the situation and, I believe, made a report to Nicaragua, which was filed with the State Department; and soon after that the State Department, through him, asked us to submit to its representative; and I am trying to be as technical as possible as to just what course it took to show that it was with the sanction of—

Senator JOHNSON (interposing). Unless you wish to do it I do not care for the technical details, although that is up to you.

Mr. STRAUSS. They are all matters of public record and I am willing to state them.

Senator JOHNSON. Well, I think you acted under the State Department.

Mr. STRAUSS. We would not have acted if we had not had the State Department back of us, or if we had not thought the State Department was back of the matter.

Senator JOHNSON. I understand that. Now, I further understand that they made a request of you.

Mr. STRAUSS. For the moment, about that I can not just recall.

Senator JOHNSON. Do you remember any other loan made by you to Nicaragua at the request of the State Department?

Mr. STRAUSS. As long as we were the bankers for Nicaragua in any shape I will say that we did nothing that was not either approved by the State Department or at its suggestion.

Senator JOHNSON. I am not questioning that. But in the last ten years did you make any loan to Nicaragua at the suggestion of the State Department?

Mr. STRAUSS. I just want to ask one of my partners here.

Senator JOHNSON. All right.

Mr. STRAUSS. Since 1926 we have not had any connection, I believe, with Nicaraguan finances.

Mr. BRECK. No; I will say that we made a bank loan to the Bank of Nicaragua.

Senator JOHNSON. When was that?

Mr. BRECK. In 1926 and 1927, I believe.

Senator JOHNSON. And that was made at the instance or suggestion of our State Department, was it not?

Mr. BRECK. I do not know about that.

Mr. STRAUSS. Let me very briefly say this: In years gone by, way back in the Taft administration, my brother and I—and my brother is now dead—handled that matter. Then as the years went by it was taken up by other partners. That is the reason I am somewhat hazy about it now. But the earlier part of it I am quite familiar with. When we get down to the more modern times I do not think Mr. Breck knows much about it, for one or another of our partners handled it. But I can briefly say this: That we never made a public issue on Nicaraguan bonds, and what we did was handled jointly with other firms, at one time Brown Bros. and the Guaranty Trust Co. of New York, I think, and at another time with the Guaranty Trust Co. of New York but without Brown Bros. & Co.: we made them bank loans or bank credits with which to reorganize their currency, and we undertook then the control of the state railroad, which was being operated at 100 per cent of the gross receipts, and we sent down railroad men to manage it, and it was a very different sort of thing from anything we are discussing here.

Senator JOHNSON. Do you ever remember a railroad loan being made there?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. When was that made?

Mr. STRAUSS. It was very far back, over 10 years ago, I should say, before the World War.

Senator JOHNSON. Do you remember who was the Secretary of State at the time?

Mr. STRAUSS. I think Mr. Bryan, if I am not mistaken.

Senator JOHNSON. I thought that might bring about your recollection. Was it during Mr. Kellogg's time?

Mr. STRAUSS. Oh, no. I think it was during Mr. Bryan's time as Secretary of State.

Senator JOHNSON. It was done at the instance of the State Department, however, was it not?

Mr. STRAUSS. It was either done at their instance or in such a way that they were assuming the responsibility for inviting us.

Senator JOHNSON. I was just curious, and that was all, as to the mode of making these loans. Take the Mortgage Bank of Bogota, \$3,000,000, was that done through an intermediary?

Mr. BRECK. That is the one I just mentioned, about having been brought to our notice by the representative of the Central Union Trust Co. who was in Colombia and who talked with this Colombian named Borda about it, and when the business was done Mr. Borda received a commission.

Senator JOHNSON. Now let us take the Department of Cundinamarca. That was a \$12,000,000 loan. Was that made through an intermediary?

Mr. BRECK. Through the same intermediary.

Senator JOHNSON. Borda?

Mr. BRECK. Yes, sir.

Senator JOHNSON. What did he receive on that?

Mr. BRECK. I think he received 15 per cent of our net originating profit, which works out somewhere between one-quarter and three-eighths of 1 per cent of the face amount of the issue.

Senator JOHNSON. Was he in the bond business?

Mr. BRECK. No. He was an individual. He was a promoter.

Senator JOHNSON. Was he connected with the Government?

Mr. BRECK. Not that I know of.

Senator JOHNSON. Did you ever investigate that matter so as to ascertain?

Mr. BRECK. I never met Mr. Borda.

Senator JOHNSON. Was there any competing for his particular business by any American firms that you were aware of?

Mr. BRECK. We were told during our negotiations that other houses had representatives in Colombia who wanted to do the business. But that was usual and often the case in connection with foreign loan negotiations, that there was competition for loans.

Senator JOHNSON. What date was that loan made?

Mr. BRECK. June of 1928.

Senator JOHNSON. What is its condition now?

Mr. BRECK. Do you mean are payments being made regularly?

Senator JOHNSON. Yes.

Mr. BRECK. They have been. But as you know, the Republic of Colombia has issued a decree controlling the exchange, so that the departments can not buy foreign exchange with which to pay their loans.

Senator JOHNSON. Therefore they have defaulted in the matter of the interest?

Mr. BRECK. Not yet.

Senator JOHNSON. They will default, however, under that decree if it is enforced?

Mr. BRECK. They must.

Senator JOHNSON. When is the next interest payment due?

Mr. BRECK. May 1.

Senator JOHNSON. Do you mean May 1, 1932?

Mr. BRECK. Yes.

Senator JOHNSON. Well, have you consulted Mr. Borda about that at all?

Mr. BRECK. No.

Senator JOHNSON. Why not?

Mr. BRECK. We have consulted the department about it. It was their responsibility, the department of Cundinamarca.

Senator JOHNSON. Well, Borda received a considerable commission, you say, something like one-half of 1 per cent.

Mr. BRECK. Not that much. Somewhere between one-quarter and three-eighths of 1 per cent, I don't remember exactly.

Senator JOHNSON. Next you have the city of Rio, \$13,000,000.

Mr. BRECK. That was an issue the leaders in which were Blair & Co. We were in the purchase group, but they conducted the negotiations and headed everything.

Senator JOHNSON. You had nothing to do with the intermediary in that instance?

Mr. BRECK. No, sir.

Senator JOHNSON. Do you know whether or not there was some particular individual in that issue who obtained a commission?

Mr. BRECK. I do not know.

Senator JOHNSON. But Blair & Co. were the ones who initiated it?

Mr. BRECK. Yes.

Senator JOHNSON. But you were a member of the original group, were you not?

Mr. BRECK. Yes, sir.

Senator JOHNSON. What is this next one, Fried. Krupp?

Mr. BRECK. That is a German steel and iron company.

Senator JOHNSON. You have a loan of \$10,000,000 to them?

Mr. BRECK. We were the members of the original group. It has since been paid off in full.

Senator JOHNSON. How about the loan to the city of Rio?

Mr. BRECK. That has been since paid off in full.

Senator JOHNSON. Both of these are paid off in full?

Mr. BRECK. Yes, sir.

Senator JOHNSON. Next, Cunard Steamship. That has been paid?

Mr. BRECK. Yes, sir.

Senator JOHNSON. That was for \$7,500,000?

Mr. BRECK. Yes, sir; \$7,500,000.

Senator JOHNSON. Did you have an intermediary there?

Mr. BRECK. I do not know. Brown Bros. & Co. sold that issue.

Senator JOHNSON. The next one is Leonard Tietz (Inc.), \$3,000,000. What was that?

Mr. BRECK. That was a German department store. That issue was sold by Lehman Bros.

Senator JOHNSON. When was it that that was purchased?

Mr. BRECK. In January of 1926.

Senator JOHNSON. I notice there was a spread there of 14. What was it purchased for, at what price?

Mr. BRECK. They were purchased at a cost of 83.

Senator JOHNSON. And sold at what?

Mr. BRECK. Sold at 97.

Senator JOHNSON. Did you take that loan up with the State Department?

Mr. BRECK. I assume that Lehman Bros. did. We were not the leaders and naturally we would not do so.

Senator JOHNSON. In taking up any of these loans with the State Department did you advise them at any time of the purchase price and then of the selling price?

Mr. BRECK. No; we did not. We told them of the amount of the financing, as I recall it, that was contemplated. I will be glad to

send you a copy of our letter to the State Department, which was usually in general language. I think the cost price might have been mentioned, but I would have to consult our letters in order to tell you.

Senator JOHNSON. Please send us a copy of one of your letters of the regular sort.

Mr. BRECK. All right.

(See exhibits at conclusion of testimony.)

Senator JOHNSON. Next is the Berlin City Electric Co., \$1,000,000. Has that been paid off?

Mr. BRECK. Yes.

Senator JOHNSON. Did you have an intermediary there?

Mr. BRECK. I do not know. Hallgarten & Co. headed that issue, and I do not know the details.

Senator JOHNSON. Berlin City Electric Co., \$2,000,000. Has that been paid off?

Mr. BRECK. I think it has; yes.

Senator JOHNSON. Did you have an intermediary there?

Mr. BRECK. I do not know, sir; because we did not head the issue.

Senator JOHNSON. Republic of Cuba, \$9,000,000. Do you recall that?

Mr. BRECK. Yes, sir.

Senator JOHNSON. Give us the date, please.

Mr. BRECK. That was offered in July of 1927.

Senator JOHNSON. Were you the original sponsor of that loan?

Mr. BRECK. No; J. P. Morgan & Co. were.

Senator JOHNSON. Was there an intermediary there?

Mr. BRECK. I do not know.

Senator JOHNSON. Cunard Steamship Co., \$2,500,000.

Mr. BRECK. That is another issue that has since been brought out.

Senator JOHNSON. Was there an intermediary there?

Mr. BRECK. I do not know.

Senator JOHNSON. Mortgage Bank of Venetian Provinces, \$5,000,000.

Mr. BRECK. Yes; in November of 1927.

Senator JOHNSON. Did you have an intermediary there?

Mr. BRECK. I do not know. Hollins & Co. headed that issue.

Senator JOHNSON. So you have no idea as to whether there was anybody who received a commission in that as intermediary or not?

Mr. BRECK. My impression is that they paid somebody a commission, but I have no knowledge of it.

Senator JOHNSON. Hellenic Republic, \$7,500, and another one of \$7,500.

Mr. BRECK. \$7,500,000; they were 1-year notes offered in May of 1930, and paid off by a similar amount of notes now outstanding.

Senator JOHNSON. Have you any short-term credits with Germany?

Mr. BRECK. No, sir.

Senator JOHNSON. Have you dealt in any?

Mr. BRECK. I do not understand that.

Senator JOHNSON. Have you dealt in any short-time credits of Germany?

Mr. BRECK. Have we participated in any offering in this country of short-time loans to German municipalities or cities or the German Government or States?

Senator JOHNSON. We will put the question in that way first.

Mr. BRECK. No; we have not.

Senator JOHNSON. Have you participated in any abroad?

Mr. BRECK. Yes; to the Republic of Peru; we made a credit to them—

Senator JOHNSON (interposing). No; I am speaking of German short-time credits.

Mr. BRECK. We have not. We have ourselves made deposits in German banks from time to time.

Senator JOHNSON. Oh, yes. But as a banking institution you are not the owner of short-time German credits?

Mr. BRECK. No, sir.

Senator JOHNSON. Are you familiar with the Bolivian loan that is now in default?

Mr. BRECK. Only in the most general way. We were not the negotiators or principals in it. We were more or less participants.

Senator JOHNSON. Have you made any inquiry in respect of it?

Mr. BRECK. Now or at any time?

Senator JOHNSON. At any time.

Mr. BRECK. At the time the issue was originated; yes; we looked into the statistics, such as were available, before we decided to go in.

Senator JOHNSON. Did you investigate any of the difficulties that subsequently arose in respect to it?

Mr. BRECK. We were not the leaders of the business. We had nothing to do with that.

Senator JOHNSON. Are you an expert on financial affairs of Latin America?

Mr. BRECK. I do not know, sir.

Senator JOHNSON. How long have you been acquainted or connected with that sort of work?

Mr. BRECK. Since 1926.

Senator JOHNSON. I presume you have devoted yourself pretty generally to it since then, have you not?

Mr. BRECK. Yes, sir.

Senator JOHNSON. You are familiar with the Latin-American republics?

Mr. BRECK. I think so.

Senator JOHNSON. And you are particularly familiar with those with which you have dealt?

Mr. BRECK. Yes, sir.

Senator JOHNSON. Is it your opinion that Latin America has been overborrowed?

Mr. BRECK. In the light of hindsight; yes. But that is only in the light of the knowledge that commodity prices, particularly the prices of raw materials, upon which their prosperity primarily depends, have had a catastrophic fall in the last two years. At the time when the loans were made in most cases I think it fair to say they were not overborrowed, and my memorandum which I gave you on Peru will show you that at the time the refunding was undertaken, at the time the \$85,000,000 6 per cent loans were offered, the

average annual revenues of the republic for the three years preceding that loan had been \$38,557,000. And the annual service charge on the total external funded debt was approximately 20.78 per cent of the Government's annual income. That figure is generally considered to be a conservative figure.

Senator JOHNSON. Did you consult, at any time, the Department of Commerce of the United States Government in reference to the condition of any of these countries?

Mr. BRECK. We subscribed to and took their regular bulletins and service analyzing all Latin-America countries, and followed them quite closely.

Senator JOHNSON. Weren't you aware of the fact that so far as Bolivia, Peru, Uruguay, and Colombia were concerned, that the Department of Commerce advised against further loans?

Mr. BRECK. I never heard of their so advising.

Senator JOHNSON. Did you ever see any of them, any member of that department, about it?

Mr. BRECK. No.

Senator JOHNSON. Did you consult otherwise than writing a letter to the State Department, any member of the State Department at any time?

Mr. BRECK. No, sir.

Senator JOHNSON. So that if you depended at all upon any literature it was merely the bulletins that were issued?

Mr. BRECK. The bulletins issued by the Department of Commerce on conditions in various countries, which we follow very closely.

Senator JOHNSON. You follow them closely, do you?

Mr. BRECK. Yes, sir. And in none of those bulletins, according to my recollection, was there any statement made at the time those loans were issued that Peru or any other country was overborrowed.

Senator JOHNSON. What was it that led to the extraordinarily keen competition among international bankers for South American loans?

Mr. BRECK. I think it was an appetite on the part of the American public to buy foreign loans.

Senator JOHNSON. And you were ministering to that appetite only?

Mr. BRECK. Yes; but we did the business for profit.

Senator JOHNSON. They have eaten to repletion at the present time. However, you need not answer that.

Mr. BRECK. The world has.

Senator JOHNSON. And the American public has, on South American loans, has it not?

Mr. BRECK. And, to a certain extent, the European public. There are large amounts of South American loans in Europe.

Senator JOHNSON. So that you think they have suffered too?

Mr. BRECK. Yes.

Senator JOHNSON. That may be some consolation, but it is not to the man who suffered.

Mr. BRECK. Not much. I think it should be observed that a great many American bonds are selling at very low prices.

Senator JOHNSON. Government bonds?

Mr. BRECK. Not necessarily, although all of the United States Government bonds—

Senator JOHNSON. The reason I say that is that I have constantly heard here a comparison made between bonds that are selling low in America and Government bonds of Latin America, and I do not think it is quite an apt comparison.

Mr. BRECK. I agree with you, Senator; I do not think it is. But if one takes such bonds as the German industrial bonds and compares them with the industrial bonds of American companies, the comparison is a fair one, I think.

Senator JOHNSON. What are your Colombian bonds quoted at now?

Mr. BRECK. Which ones, sir?

Senator JOHNSON. Let us take Cauca Valley. Are they on the market?

Mr. BRECK. Yes; I think they sell around 15 or 16.

Senator JOHNSON. You sold them for what?

Mr. BRECK. In the 90's some place.

Senator JOHNSON. Take Costa Rica?

Mr. BRECK. 95½. They are selling at 40.

Senator JOHNSON. They are doing better?

Mr. BRECK. Yes.

Senator JOHNSON. The Mortgage Bank of Botoga bonds. Are they on the market?

Mr. BRECK. Yes.

Senator JOHNSON. What did you sell them for?

Mr. BRECK. 92½.

Senator JOHNSON. What are they listed at now?

Mr. BRECK. Somewhere in the lower 20's, I think.

Senator JOHNSON. And the department of Cundinamaroa?

Mr. BRECK. Offered at 93½.

Senator JOHNSON. On the market it is listed at what?

Mr. BRECK. 16 or 17.

Senator JOHNSON. City of Rio was sold at what?

Mr. BRECK. It has since been redeemed.

Senator JOHNSON. Oh. I beg your pardon. That is all I desire to ask of this gentleman.

The CHAIRMAN. You may be excused.

Mr. STRAUSS. May I just make this observation, Mr. Chairman? It has perhaps really been brought out in the hearing. In all of the issues, including Peru, which by implication has been criticized, we have never brought out a bond issue that we did not believe at the time was a safe investment; that so far as it was possible we tried to control expenditures for specific purposes, and to that end various contracts provided the purpose for which the money should be spent. But it is almost impossible in dealing with any government to follow up the actual expenditure of the money. It would be a sort of usurping their powers of government. It may very well be that unless governments are willing to have this done, no loans should be made. But we are faced by two choices: Either attempting to regulate the expenditure, in which case American bankers far away from the scene charge themselves with the responsibility of running the internal affairs of the country, or else we must trust as far as we can the expenditures to the government

itself, taking care, however, to see that the proceeds of a loan are placed in certain categories, whether for refunding, whether for improvements, whether for stabilization of currency, whatever the purpose may be. So to that extent we have been in all cases, particularly in Peru, diligent.

The CHAIRMAN. You do not believe that there was any man in the world 10 years ago who thought that there would ever be the debacle in the world's finances that there is to-day?

Mr. STRAUSS. Certainly not. If we had foreseen it we would not have done any business in the last five years; and I trust that we should not have gone short on the market to reap a fortune at the expense of less fortunate people. We certainly would not have been in business during all these years.

In the Nicaraguan case, if I may revert to it for a moment, there was a case where we undertook at the request of instigation or at the suggestion of the State Department the running of internal affairs of that country. We collected the customs, we ran the railroads, we ordered the currency, we undertook the tutelage of that country of a kind that has never been undertaken before. We did, if I may be permitted to say so, a successful job, and then withdrew from it after many years; but there has been constant criticism of the Nicaragua experiment, and I can see perfectly well why, from a certain point of view, they are justified in saying that we have no business, no matter how good the work that was done, to be in business there, to undertake to run the country. It only took a moment to summarize that, and I would like to leave that statement upon the record.

Senator JOHNSON. Let me ask you this, inasmuch as you have made your statement, now. In the last few years there was not the transaction of the ordinary business, Mr. Strauss, with which you had been familiar in years gone by, was there?

Mr. STRAUSS. I did not quite get that, Senator.

Senator JOHNSON. The last few years of your business are not comparable with the kind of business or the mode in which you conducted your business in prior years?

Mr. STRAUSS. That is quite true, Senator.

Senator JOHNSON. You found in the last few years a perfect madness in relation to the acquisition of bonds and the selling of them to the public, did you not, among all of those engaged in the same line of business with yourselves?

Mr. STRAUSS. I might qualify with an adjective, but in the main, yes; you are correct.

Senator JOHNSON. And there came a keenness of competition among international bankers to obtain loans in Latin America in order to sell them to the American public?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. And you participated in that competition. I am not criticising you in relation to that matter, but you participated in that competition, did you not?

Mr. STRAUSS. We did.

Senator JOHNSON. There were many firms—I am not speaking of yours—in New York City who had their agents and their representatives in different places in Latin America seeking to obtain governmental loans privately in the United States; is not that true?

Mr. STRAUSS. Yes; but it is also true that those things existed not only in Latin America, but the world over, relating to governments, municipalities, and industrial concerns. In other words, the accumulation of capital in America was seeking an outlet. The bankers were the instruments of the outlet. They were the purveyors of capital. The bankers competed to a degree that in retrospect was wholly wrong. I am not speaking morally. I believe, however—I know I can say it of our firm, and I think I can say it of almost every banker, that no loans were undertaken, in spite of the madness that you speak of, that were not believed to be safe.

Senator JOHNSON. I am not speaking of that. You have widened the field of investigation concerning which I was just interrogating you. You say this keen competition existed not only in Latin America but all over the world; is that correct?

Mr. STRAUSS. I think that is correct.

Senator JOHNSON. Did it exist in relation to German securities?

Mr. STRAUSS. I think, unquestionably so.

Senator JOHNSON. So that international bankers were going into Germany and soliciting loans, governmental, or political subdivisions, of industrial enterprises, of corporations, and the like, in order to float them in America; is that correct?

Mr. STRAUSS. Yes. We did solicit; but the borrowers were very eager to be solicited, of course.

Senator JOHNSON. But you reversed the processes of the ordinary mode of conducting a banking business; you had in these last few years the lenders going to the borrowers to have the borrowers borrow of the lenders, did you not?

Mr. STRAUSS. Yes, sir.

Senator JOHNSON. And in that fashion they accelerated, stimulated, increased loans of various political subdivisions, Governments, industrial enterprises, and the like; is not that correct?

Mr. STRAUSS. That was the effect of it; yes.

Senator JOHNSON. And that was peculiarly the effect of it in South America and in Latin America?

Mr. STRAUSS. It may be, but I am not prepared to say that. I should have to think that over before I could answer that question.

Senator JOHNSON. Before 10 years ago you would not have thought of paying the son of the president of a South American Republic half a million dollars in order to get a piece of business, would you?

Mr. STRAUSS. I just want to say this, as you advert to it. You may think that this is a quibble, but it is not. We had absolutely no knowledge of this. We accepted a fact. We may have made a mistake, Senator, in not at that time throwing the thing over, but we did not solicit the son of the president of that Republic.

Senator JOHNSON. Oh, yes. You say you did not solicit; but immediately upon knowledge of the facts, before you had consummated your transaction, you accepted—

Mr. STRAUSS. We accepted the state of facts as we found them.

Senator JOHNSON. Is there any difference between that and soliciting?

Mr. STRAUSS. I think so.

Senator JOHNSON. We will not argue that proposition. At any rate, you had not consummated your loan; you had not put out a

10-cent piece upon it before you learned of just what was transpiring, and you went forward after you had learned but before you had proceeded with your consummation, and agreed to pay the son of the President of Peru practically half a million dollars.

Mr. STRAUSS. That is true. On the other hand, it is also true that that did not affect the price—an arm's length transaction, long negotiations. It simply diminished the profit of the bankers.

But the point you are making is about the business methods, the change that has come about. It would not have been natural 10 or 20 years ago; I quite agree with you. I belong to that generation. I have seen these changes going on. Apparently they are inevitable.

Senator JOHNSON. All right. There were business methods that never ought to have obtained. You would agree with me on that, would you not?

Mr. STRAUSS. There were business methods that ought not to have obtained. In my opinion, I have always felt, with due regard to courtesy to the borrower, that the borrower should seek the lender and not the lender the borrower.

Senator JOHNSON. But I am speaking of additional sums paid, like the payment of the sum in Peru.

Mr. STRAUSS. Let me say as to that that for the last century and a quarter, at least long before America ever became a lender in the money markets of the world, the custom in London, Paris, Amsterdam, wherever it was abroad, was that such business was initiated by promoters to whom commissions were paid. What happened was that there were extended to America, when she became a lender, the same customs that have obtained in earlier years in the lending nations of Europe.

Senator JOHNSON. I do not want you to be on the record in a fashion that you ought not to be. Do you mean to say, sir, or do you wish this record to go to the Senate with the statement on your part that methods such as were pursued with the son of the President of Peru have been methods that have always been pursued with loans?

Mr. STRAUSS. I was not saying that.

Senator JOHNSON. Oh. I thought you were.

Mr. STRAUSS. I was speaking of commissions paid.

Senator JOHNSON. There may be commissions and commissions. But we will not argue as to one kind or the other. I am certain that you did not intend to say that always the sort of thing that was done in Peru had been done by those who loaned money to borrowers.

Mr. STRAUSS. I have no idea as to what those methods were or how it was done. All I was saying was that from time immemorial commissions have been paid to intermediaries for that kind of business.

Senator JOHNSON. That is a different proposition.

Mr. STRAUSS. On the other matter I think I have tried to make my position clear, and we differ.

Senator JOHNSON. That is all right. The methods that have been pursued in the past ten years are methods that do not commend themselves to you?

Mr. STRAUSS. Not now, in retrospect.

Senator JOHNSON. They do not commend themselves to you in retrospect; and the whole object of this investigation is to devise some way, if we can, to put a stop to that sort of thing, and thus protect the American investor. That is the whole object that we are endeavoring to attain by this investigation. You agree that that ought to be done if we can?

Mr. STRAUSS. If you can. I have my doubts as to whether it can be; but if it could be attained, why, certainly.

Senator JOHNSON. I have my doubts, too, but that does not make any difference about the desirability of it?

Mr. STRAUSS. Absolutely not.

The CHAIRMAN. There is no question about it at the present time. It may come at some future time, but under the conditions in the world to-day there would be no necessity for it.

Senator JOHNSON. You are quite right; and after this investigation I think there will be some difficulty in selling Latin American loans in this country.

Do not forget that you are to send us certain things, Mr. Breck.

Mr. BRECK. Very well, sir. As I understand it, you want the list of payments to various intermediaries?

Senator JOHNSON. Yes; and I want your original agreement with regard to the Peru loans. Do not forget that.

Mr. BRECK. The Peru loan contracts?

Senator JOHNSON. Yes. And if you have any secondary contracts in reference to the loans—

Mr. BRECK. There are none.

Senator JOHNSON. I want all the contracts that you have in reference to Peru. Then I asked you repeatedly, you know, concerning the deposits of this young man Leguia, his bank statement and the like.

Mr. BRECK. Yes, sir.

Senator JOHNSON. You have notes of all those?

Mr. BRECK. Yes, sir.

Senator JOHNSON. Send your contracts so that they may go into the record; and send some of your prospectuses, too.

Mr. BRECK. We can leave those here now.

Senator JOHNSON. Will you leave them?

Mr. BRECK. Yes, sir.

Senator JOHNSON. If you want to leave them, the reporter will copy them and send them back to you.

Mr. STAHL. I would like to take this back. It is the only copy we have.

The CHAIRMAN. Whatever reports you send down here, I would like to have a copy of them, please.

Mr. STRAUSS. Very well, Mr. Chairman.

The CHAIRMAN. Please send two copies of each document.

Senator JOHNSON. I will hand these to the reporter, and he will return them to you if you wish them returned. Do you?

Mr. BRECK. No, sir; I do not.

Mr. STAHL. If they want them at the office, I will write back.

(The prospectuses referred to and submitted by the witness are here printed in full, as follows:)

ISSUES HEADED BY OTHERS IN WHICH J. AND W. SELIGMAN & CO.,  
PARTICIPATED IN ORIGINAL GROUP\$15,000,000 CITY OF COPENHAGEN MUNICIPAL EXTERNAL LOAN OF 1919 25-YEAR  
5½ PER CENT REDEEMABLE SINKING FUND GOLD BONDS

Dated July 1, 1919. Due July 1, 1944.

Interest payable January 1 and July 1.

Coupon bonds in denominations of \$1,000 and \$500, registrable as to principal only. Principal and interest payable at the office of Brown Bros. & Co., New York, the fiscal agents of the loan, in gold coin of the United States of America of or equal to the standard of weight and fineness existing on July 1, 1919.

Payable without deduction for any Danish Governmental or municipal taxes or other Danish taxes present or future.

The loan is to be repayable, by means of yearly payments of \$750,000 in United States gold coin, to be made in the year 1925, and in each year thereafter during the life of the loan. Such payments will constitute the sinking fund of the loan, and are to be applied on July 1, 1925, and each July 1 thereafter to the redemption at par of bonds whose numbers are to be determined by lot.

The city may at its option increase the amount of any sinking fund payment.

Copenhagen, the capital of Denmark, is the chief seaport and leading commercial city of the Kingdom. Situated on one of the largest harbors of Europe at the entrance to the Baltic Sea, it holds a strategic position for world trade. The city has by far the most important free port in Scandinavia an advantage of much consequence in the commerce of northern Europe. From 1805, when the free port was established, to 1913, the last full year before the war, the annual tonnage entering Copenhagen increased from 260,096 tons to 1,801,299 tons. The population of the city is 550,000. This is nearly one-fifth the population of the entire Kingdom.

Loans of Copenhagen have always been held in high favor among European investors. In normal times these loans were issued at rates of interest of 3½ per cent and 4 per cent. The total debt of Copenhagen including the present issue is approximately \$89,879,200. The debt of the city has increased relatively little during the entire war period. We are advised that no other foreign loan will be issued by the city within one year.

We offer these bonds when, as, and if issued, at 83¼ and accrued interest yielding, according to the redemption dates for which they may be drawn by lot for payment at par (\$750,000 bonds to be drawn each year) as follows:

	Per cent		Per cent
1925.....	6.64	1936.....	6.12
1926.....	6.08	1937.....	6.10
1927.....	6.56	1938.....	6.08
1928.....	6.46	1939.....	6.07
1929.....	6.39	1940.....	6.05
1930.....	6.33	1941.....	6.04
1931.....	6.28	1942.....	6.03
1932.....	6.24	1943.....	6.02
1933.....	6.20	1944.....	6.01
1934.....	6.17	Average yield.....	6.24
1935.....	6.14		

Pending the preparation of definitive bonds, temporary bonds of the city of Copenhagen will be delivered against confirmed sales. It is expected that the temporary bonds will be ready for delivery at the office of Brown Bros. & Co., 59 Wall Street, New York, about August 18, 1919.

All legal matters pertaining to this issue are subject to the approval of our counsel, Messrs. Cravath & Henderson, of New York, and former minister of justice, supreme court counsellor, Fritz Buelow, of Copenhagen.

BROWN BROTHERS & CO.  
LEE, HIGGINSON & CO.  
J. & W. SELIGMAN & CO.  
WM. A. REED & CO.

**\$13,000,000 CITY OF RIO DE JANEIRO (FEDERAL DISTRICT OF THE UNITED STATES OF BRAZIL) 25-YEAR 8 PER CENT EXTERNAL SECURED SINKING FUND GOLD BONDS, GUARANTEED PRINCIPAL, INTEREST, AND SINKING FUND BY THE FEDERAL GOVERNMENT OF THE UNITED STATES OF BRAZIL.**

Dated April 1, 1922. Due April 1, 1947.

Interest payable April 1 and October 1 in New York at the office of Blair & Co., fiscal agents of the loan.

Principal and interest payable in United States gold, free of all Brazilian taxes. Coupon bonds in the denominations of \$1,000 and \$500.

Not redeemable except as a whole on any interest date from April 1, 1924, to April 1, 1931, inclusive, at 110 and interest; redeemable thereafter in whole or in part on any interest date at 105 and interest.

*Purpose.*—These new bonds are to be issued to refund the external serial dollar loan of 1919, the balance of the proceeds of this issue to be available for the purchase and cancellation of internal loans.

*Security.*—These bonds are to be the direct obligation of the city of Rio de Janeiro (Federal district of United States of Brazil).

They are to be specifically secured (upon redemption of the above-mentioned external serial dollar loan of 1919) by deposit of £7,500,000 principal amount of 4½ per cent bonds of 1912 which, together with £2,500,000 of the same issue, constitute a charge on the imposto predial (house property tax), the largest and most important source of revenue of the city. The receipts from this tax for the last three years are officially reported as follows:

	Milreis
1919.....	18,688,600
1920.....	19,629,202
1921.....	22,688,000

The above amounts converted at the average rates of exchange for the respective years, after deducting prior charges, similarly computed at the average rates of exchange, average approximately \$2,100,000 per annum available for the security of the new loan. The receipts from the imposto predial for 1922 are officially estimated at 26,000,000 milreis, or about 15 per cent more than in 1921.

*Guaranty.*—These bonds will have as further security the unconditional guaranty as to principal, interest and sinking fund by the Federal Government of the United States of Brazil.

*Sinking fund.*—The loan contract is to provide for the payment to the fiscal agents of a sinking fund semiannually, commencing October 1, 1931, each semiannual payment to be sufficient to purchase or redeem one thirty-second of the total issue at not exceeding 105 and interest. All moneys thus paid to the fiscal agents are to be applied to the purchase of the bonds at not exceeding 105 and interest, and if not so obtainable within the period set by the loan contract are to be used to redeem bonds at 105 and interest on the next interest date.

*Debt.*—The total funded debt of the city (including that to be retired by the proceeds of this issue), reported as of January 2, 1922, amounted to approximately \$68,525,000, figured at the current rates of exchange. This is divided as to currencies into \$22,000,000; £7,273,180 and 107,585,000 milreis.

*General.*—The city of Rio de Janeiro is the federal capital of the United States of Brazil. With a population estimated at about 1,200,000, it ranks as the largest city of Brazil and the second largest city in South America. The estimated value of the property which serves as the basis for collection of the imposto predial, figured at the par of exchange, amounts to approximately \$895,000,000.

#### PRICE 103 AND INTEREST

All offerings are made "when, as, and if" issued and received by us and subject to the approval of our counsel. Interim receipts or temporary bonds will be deliverable in the first instance.

City of Rio de Janeiro 8 per cent external serial gold bonds of 1919 (\$10,000,000 now outstanding) with all unmaturing coupons attached, will be accepted at par and accrued interest, in payment or in exchange for bonds of this issue deliverable on confirmed allotments. This privilege is subject to withdrawal at any time without notice.

For purposes of calculation the current rate of the milreis is taken at 13½ cents; the current rate of the pound sterling at \$4.40; the par of the milreis at 32.44 cents, and the average of the milreis for the three years 1919-1921 at approximately 20 cents.

The statements contained in this circular are based on information from official or other sources which we believe to be reliable, but they are not guaranteed by us. The foregoing is based largely on cabled advices and is necessarily subject to correction upon receipt of final documents from Brazil.

**\$10,000,000 FRIED. KRUPP (LTD.), 7 PER CENT FIVE-YEAR MERCHANDISE SECURED GOLD DOLLAR NOTES**

To be dated December 15, 1924. Interest payable June 15 and December 15. To mature December 15, 1929.

These notes will be issued under an indenture which will provide for the transfer to a trustee, as security for the notes, of merchandise and raw material in salable form having at all times a value at cost or market, whichever is lower, equal to at least 150 per cent of the amount of the outstanding notes.

We are advised by our counsel that the treaty of Versailles and the London agreement of August 9, 1924, between the German Government and the Reparation Commission providing for carrying into effect the experts' plan (Dawes plan) do not impose any charge or lien for reparation upon property of the character agreed to be provided as security for these notes, and do not restrict the right of the company directly to acquire the foreign exchange necessary to meet its external obligations evidenced by these notes. Goldman, Sachs & Co., fiscal agents for the loan.

Information in regard to the company and to this issue of notes is given in the accompanying letter signed by Dr. Gustav Krupp von Bohlen und Halbach, chairman of the executive committee of Fried. Krupp Aktiengesellschaft, which letter has been summarized in part as follows:

**DESCRIPTION OF NOTES**

These notes will be in bearer-coupon form in denominations of \$1,000 and \$500. Principal and interest will be payable at the New York office of the fiscal agents for the loan in United States gold coin of the present standard of weight and fineness. The company covenants that net interest receivable from it by the holders of the notes shall not fall below 7 per cent per annum, and that net payments by way of principal and sinking fund shall not fall below the specified amounts, by reason of any German taxes, present or future, which the company may be required or permitted to deduct or withhold. The notes may be redeemed only as a whole, except for sinking fund as below stated, on any interest date at 102 and accrued interest on three months' prior notice.

The notes will be issued pursuant to the terms of an agreement with the National Bank of Commerce in New York, defining the obligations of the company, and an agreement with the Dresdner Bank, Germany, as trustee of pledged assets.

The company will covenant to retire \$750,000 principal amount of notes on or before December 15 in each of the years 1925 to 1928, inclusive, notes to be purchased at not to exceed 102 and accrued interest or called-for redemption at 102 and accrued interest.

**HISTORY AND BUSINESS**

Fried. Krupp Aktiengesellschaft (Fried. Krupp (Ltd.)), organized in 1903 to continue the industrial enterprises theretofore conducted for nearly 100 years under the firm name of Fried. Krupp, operates one of the best-known and most important steel works in the world. The activities of the company cover virtually every important steel and iron product in its various phases of manufacture.

The enterprise is entirely self-contained and thoroughly integrated, running from the production of iron ore and fuel, through pig iron and steel, up to the manufacture and sale of semifinished and specialized goods. Under the allotment of the "Ruhrkohle" (Federation of Ruhr Coal Mine Owners), the company's coal production is placed at 9,500,000 tons a year, ranking it among the largest coal producers in Germany. The steel plants of the company have an output capacity of 2,200,000 tons per annum. The company owns facilities for transport as well by river and canal as by rail. At Essen alone it owns 140 miles of railroad. The sales organization of the company is highly developed through sales companies and agencies throughout the world. In the half year ending September, 1924, the value of the company's total sales in foreign countries amounted to \$7,800,000; thus, a constant supply of foreign exchange may be relied upon.

Although the name of Krupp had been widely associated with the production of war material, yet such production before the year 1914 did not represent more than 5 per cent in weight of the entire iron and steel output of the concern. Since 1919, the company has been exclusively engaged in the production of industrial articles such as, among many other things, rails, locomotives and rolling stock, forging and steel castings, motors and motor trucks, structural steel, agricultural machinery and implements, Diesel engines and cash registers.

The company's business has been thoroughly adjusted to a peace-time basis. With the return of stable conditions in Germany and improving business conditions throughout the world, the company looks forward to a renewed period of prosperity.

#### RELATION TO DAWES PLAN

The obligations of the company with respect to the payment of reparation (Dawes Plan) will take the form of a requirement that the company pay annually an amount not exceeding 6 per cent upon a capital sum which has not yet been definitely determined but which, in all probability, will not exceed 30,000,000 gold marks, or about \$7,200,000. No payment whatever is required for the first year ending August 31, 1925. For the second year the rate is 2½ per cent; for the third year, 5 per cent. For the fourth year, it attains 6 per cent, whereof 1 per cent is as amortization of principal. As there is no provision for accelerating the maturity of the capital sum, the average annual payment required of the company for account of reparation during the life of these notes would thus not exceed \$306,000. The liability of the company for reparation will be secured by a charge in the nature of a first mortgage upon the fixed assets of the company, but such charge does not extend to assets of the character to be pledged as security for these notes.

Neither German law nor any international engagements assumed by the German Government involve any restrictions upon the acquisition by the company of the foreign exchange requisite to permit the company to meet the external obligations evidenced by these notes.

#### PURPOSE OF ISSUE

The purpose of this issue is to reduce the company's current indebtedness and to assure adequate working capital for the future.

#### ASSETS AND LIABILITIES

Working assets of the company, before giving effect to this financing, on October 1, 1924, amounted to in excess of \$33,000,000, after eliminating entire company items. Such assets in themselves substantially exceed the entire indebtedness and liabilities of the company, including its liability for reparation at the capital sum of \$7,200,000 but excluding items of intercompany indebtedness, transitory items, and reserves. The plant and fixed assets were conservatively valued at approximately \$45,000,000. Liberal depreciation and reserves have been taken. The net worth of the company, exclusive of subsidiaries, is in excess of \$40,000,000 after including in liabilities items of intercompany indebtedness, transitory items and reserves aggregating approximately \$12,000,000 and reparation at the capital sum of \$7,200,000. Price, 99¼ and accrued interest, to yield about 7.18 per cent.

This offering is made in all respects when, as, and if issued and accepted by us and subject to the approval of Messrs. Sullivan & Cromwell, of New York. We reserve the right to reject any and all subscriptions in whole or in part, to allot less than the amount applied for, and to close the subscription books at any time without notice.

It is expected that delivery of temporary notes or interim receipts will be made on or about February 5, 1925, at the office of Goldman, Sachs & Co., New York, N. Y., against payment therefor in New York funds.

GOLDMAN, SACHS & Co.  
 WHITE, WELD & Co.  
 KLEINWOERT SONS & Co. (LONDON).  
 HALLGARTEN & Co.  
 J. & W. SELIGMAN & Co.  
 LEHMAN BROS.  
 HALSEY, STUART & Co. (INC.).

FRIED. KRUPP AKTIENGESELLSCHAFT,  
*Essen, Germany, December 19, 1924.*

Goldman, Sachs & Co., New York; Kleinwort Sons & Co., London; Lehman Bros., New York; White, Weld & Co., New York; Hallgarten & Co., New York; Halsey, Stuart & Co. (Inc.), New York; J. & W. Seligman & Co., New York.

GENTLEMEN: Referring to the issue of \$10,000,000 principal amount of 7 per cent 5-year merchandise secured gold dollar notes of this company, we give you the following information:

#### HISTORY AND BUSINESS

Fried. Krupp Aktiengesellschaft (Fried. Krupp (Ltd.)) was organized in 1903 to continue the industrial enterprises theretofore conducted for nearly 100 years under the firm name of Fried. Krupp. The Krupp establishment is one of the oldest, best known, and most important steel works in the world. The enterprise is entirely self-contained, the company's business being thoroughly integrated and balanced and running from the production of iron ore and fuel, through pig and steel, up to the manufacture and sale of semi-finished and specialized goods. The company is one of the largest coal producers in Germany and its production of coal is more than sufficient for its own requirements. The mines controlled and worked are equipped with coking plants for the recuperation of by-products. Under the allotment of the "Ruhrkohle" (Federation of Ruhr Coal Mine Owners) the company's coal production is placed at 9,500,000 tons a year. In addition to its control of fuel, the company also controls and works important deposits of high-grade iron ore, thus insuring a most valuable supply of iron ore for a long period of time.

The plants of the company are modern and are advantageously located for an economic production and distribution of their products by water and rail. The blast furnace plants, comprising 10 furnaces at Rheinhausen on the lower Rhine and 7 on the middle Rhine, have a total daily output capacity of between five and six thousand tons. The company is a leader among the large steel makers in Europe and is especially known for its high-grade steel specialties. The steel plants are equipped mainly with open-hearth furnaces with capacities of up to 80 tons, in addition to converters and electric and crucible shops. Their total yearly steel output capacity is 2,200,000 tons.

Although the name of Krupp had been widely associated with the production of war material, yet such production before the year 1914 did not represent more than 5 per cent in weight of the entire iron and steel output of the concern. Since 1919 the company has exclusively been engaged in the production of articles of the industrial character described hereafter.

The main plants for casting, forging, rolling, and finishing are located at Essen and Rheinhausen. A considerable part of the steel is sold as raw or semifinished products. The finishing shops of the company are equipped to handle the biggest pieces occurring in industry. The engineering departments, most modern in their equipment, turn out products of wide diversity.

The company's activities cover virtually every important steel and iron product in its various phases of manufacture. Among the products the following may be specified: Structural steel (construction of bridges and steel structures of any dimensions), rails, locomotives of all sizes and kinds, rolling stock, ship-building material, forging and steel castings of largest sizes, Diesel engines, motors, and motor trucks, excavators, machinery for the textile and paper industries, agricultural machinery and implements, cash registers, and many other kinds of machinery and apparatus. The works own facilities for transport as well by river and canal as by rail, there being besides for the circulation within the works a well-developed network of lines with corresponding rolling stock. At Essen alone the company owns about 140 miles of railroad, 91 locomotives, and 3,780 cars. For inland water and oversea transport the company has its own shipping department.

The sales organization of the company is highly developed through sales companies and agencies throughout the world. In the half year ending September, 1924, the value of the company's total sales in foreign countries amounted to \$7,800,000; thus a constant supply of foreign exchange may be relied upon.

#### ASSETS AND LIABILITIES

The policy of the management has at all times been conservative with regard to the utilization of earnings, and large sums have regularly been put back into the business.

Working assets of the company, as of October 1, 1924, before giving effect to this issue of notes, amounted to in excess of \$33,000,000 after eliminating inter-company items. Such working assets were not less than the following:

Merchandise.....	\$16,320,000
Investments—principally in stock of coal-mine companies.....	6,360,000
Cash, bills of exchange, etc.....	2,640,000
Bills and accounts receivable and moneys due.....	8,400,000
<b>Total working assets.....</b>	<b>33,720,000</b>

In addition are mined ores belonging to subsidiary companies to the value of \$2,400,000. The plant and fixed assets of the company are conservatively valued at approximately \$45,000,000, not including plants and fixed assets of subsidiary and affiliated companies. The company has at all times maintained its fixed properties in a high state of repair and with modern improvements. Properties have been conservatively valued and liberal depreciation and reserves have been taken.

The liabilities of the company as of October 1, 1924, without giving effect to this issue and exclusive of liability as hereafter described in connection with reparation, were not more than the following:

Funded debts.....	\$3,000,000
Prepayments on account of goods ordered but not delivered.....	2,230,000
Bank indebtedness.....	6,620,000
Accounts payable and other current indebtedness.....	6,500,000
<b>Total.....</b>	<b>18,400,000</b>

In addition to the foregoing liabilities are items of intercompany indebtedness, transitory items, and reserves totaling about \$12,320,000.

The net worth of the company, exclusive of subsidiaries and exclusive of mined ores as mentioned above, after taking its liabilities in connection with reparation as described below at the capital sum of \$7,200,000, is thus approximately \$40,800,000. Working assets, as above enumerated, in themselves substantially exceed the entire indebtedness and liabilities of the company, including its liability for reparation at the capitalized figure of \$7,200,000 but excluding the items of intercompany indebtedness, transitory items and reserves. Conversion between dollars and marks, for the purpose of this letter, has been made on the basis of 1 gold mark equals 24 cents.

#### MANAGEMENT AND EMPLOYEES

The management of the company is composed of persons who have for many years been associated with the business and who have achieved notable success in the metallurgical and engineering field.

The employees of the company numbered on December 1, 1924, over 55,000. The relations of the company with its employees have at all times been most satisfactory and the company's welfare work and housing arrangements for its employees have attracted attention throughout the world.

#### DESCRIPTION OF NOTES

This issue of 7 per cent 5-year merchandise secured gold dollar notes is limited to the principal amount of \$10,000,000, dated December 15, 1924, and due December 15, 1929. These notes will be the direct obligations of Fried. Krupp (Ltd.). The notes will be in bearer form in denominations of \$1,000 and \$500 and will bear interest payable June 15 and December 15 at the rate of 7 per cent per annum, such interest to be represented by coupons. Principal and interest, and premium if any, will be payable at the New York office of Goldman, Sachs & Co., fiscal agents for the loan, in United States gold coin of the present standard of weight and fineness. The company covenants that net interest receivable from it by the holders of these notes shall not fall below 7 per cent per annum, and that net payments by way of principal and sinking fund shall not fall below the amounts specified, by reason of any German taxes, present or future, which the company may be required or permitted to deduct or withhold. The notes will be issued pursuant to the terms of an agreement with the National Bank of Commerce in New York, defining the obligations of the company, and an agreement with the Dresdner Bank, Germany, as trustee of pledged assets.

<sup>1</sup> The proceeds of this issue will be applied to the reduction of these items.

The company will covenant to retire \$750,000 principal amount of notes on or before December 15 in each of the years 1925 to 1928, inclusive. To the extent that the company shall not purchase such notes at not to exceed 102 and accrued interest, notes will be called for redemption at 102 and accrued interest, all as provided in the trust agreements. Except as redeemed for this purpose, the notes may be redeemed only as a whole on any interest date at 102 and accrued interest and on three months' prior notice. Notes not retired nor redeemed as above are payable at par on December 15, 1929.

#### SECURITY

These 7 per cent 5-year merchandise secured gold dollar notes will be secured by a direct and exclusive first charge upon merchandise and raw material in salable form of a value at cost or market, whichever is lower, of at least 150 per cent of the amount of the outstanding notes, all as defined in the trust agreements pursuant to which the notes are issued. The company will covenant to maintain at all times this ratio between the pledged security and the amount of outstanding notes. The pledge of assets to secure the notes will be made in favor of the Dresdner Bank, as trustee of pledged assets.

#### RELATION TO DAWES PLAN

The obligations of the company with respect to the payment of reparation (Dawes plan) will take the form of a requirement that the company pay annually an amount not exceeding 6 per cent upon a capital sum which has not yet been definitely determined but which in all probability will not exceed 30,000,000 gold marks, or about \$7,200,000. No payment whatever is required for the first year ending August 31, 1925. For the second year the rate is 2½ per cent; for the third year, 5 per cent. For the fourth year, it attains 6 per cent whereof 1 per cent is as amortization of principal. As there is no provision for accelerating the maturity of the capital sum, the average annual payment required of the company for account of reparation during the life of these notes would thus not exceed \$306,000. The burden of the company's liability for reparation will, furthermore, be considerably reduced as, under a special German law, part of the annual payments in respect of industrial reparation bonds will be refunded to the obligors of such bonds by branches of German industry, banking, and commerce which under the Dawes plan do not themselves assume a direct responsibility for reparation payments. The liability of the company for reparation will be secured by a charge in the nature of a first mortgage upon the fixed assets of the company, but such charge does not extend to assets of the character to be pledged as security for these notes.

Neither German law nor any international engagements assumed by the German Government involve any restrictions upon the acquisition by the company of the foreign exchange requisite to permit the company to meet the external obligations evidenced by these notes.

#### PURPOSE OF ISSUE

The purpose of this issue is to reduce the company's current indebtedness and to assure adequate working capital for the future.

In conclusion we may say that the company's business has been thoroughly adjusted to a peace-time basis, and with the return of stable conditions in Germany and improving business prospects throughout the world, the company looks forward to a renewed period of prosperity.

You are at liberty to use this letter in your prospectus.

Very truly yours,

FRIED. KRUPP AKTIENGESELLSCHAFT,  
KRUPP BOHLEN HALBACH,  
*Chairman of the Executive Committee.*  
VIELHABER,  
G. BAUR,

*For the Managing Directors.*

\$7,500,000 (total issue) the Cunard Steamship Co. (Ltd.), 2-year 5 per cent external gold notes.

To be dated December 1, 1925. To mature December 1, 1927.

Interest payable June 1 and December 1. Coupon notes \$10,000 and \$1,000 each, interchangeable. Principal on interest payable at the office of Brown

Brothers & Co., New York, fiscal agents for the loan, in United States gold coin, without deduction for any British taxes. Redeemable at the option of the company as a whole or in part at 100 and accrued interest on any interest date on 60 days' notice. Notes will be authenticated by the Hanover National bank of New York. The Hanover National Bank of New York, registrar.

The following information has been furnished us by Sir Thomas Royden, Bart., C. E., chairman of the Cunard Steamship Co. (Ltd.):

**Business.**—The Cunard Line, established in 1840, is not only the pioneer trans-Atlantic steamship line but, through its subsidiaries, the Brocklebank, the Commonwealth-Dominion, and the Anchor Lines, has an important interest in the valuable trades between Indian and Australia and Europe and the United States. The total fleet of the Cunard Steamship Co. and its controlled companies aggregate more than 1,000,000 tons (including ships under construction).

**Relations with British Government.**—The relations between the British Government and the Cunard Steamship Co. have always been close as evidenced by the advance in 1905-1907 by the British Government at 2½ per cent of £2,600,000 for the construction of the *Mauretania* and *Luftania*. The British Government has a nominal interest in the stock of the company.

**Security.**—The company will covenant not to increase its mortgage debt unless all notes of this issue then outstanding are secured equally and ratably with such additional mortgage debt.

**Earnings.**—During the past 10 years earnings have been as follows:

Year	Net income	Depreciation	Income tax	Balance for interest	Bond interest and discount	Surplus
1915.....	\$5,672,000	\$2,723,000	\$196,000	\$2,754,000	\$477,000	\$2,277,000
1916.....	11,395,000	7,160,000	436,000	3,799,000	675,000	3,124,000
1917.....	5,400,000	1,849,000	952,000	2,570,000	582,000	1,988,000
1918.....	5,879,000	1,720,000	1,020,000	3,138,000	542,000	2,596,000
1919.....	8,400,000	1,864,000	1,404,000	5,122,000	522,000	4,670,000
1920.....	3,576,000	1,920,000	944,000	712,000	484,000	225,000
1921.....	6,882,000	2,357,000	639,000	3,786,000	1,351,000	2,435,000
1922.....	7,044,000	3,023,000	341,000	3,680,000	1,758,000	1,922,000
1923.....	6,994,000	3,812,000	1,464,000	3,646,000	1,741,000	1,905,000
1924.....	7,895,000	4,671,000	1,419,000	3,642,000	1,723,000	1,919,000

<sup>1</sup> Credit.

For the 10-year period ended December 31, 1924, surplus after all charges including bond interest was equivalent on an average to 6.15 times the annual interest requirement of these notes, and for the year ended December 31, 1924, was equivalent to 5.11 times such interest requirement. The depreciation policy of the company has been conservative. In addition to the depreciation figures shown by the accounts, the cost of the new steamers delivered during the above period has been written down by 40 per cent out of reserves.

**Finances.**—Analysis of the accompanying audited balance sheet as of December 31, 1924, shows net tangible assets of nearly \$80,000,000 after deducting all liabilities except funded debt. This is equivalent to about two and three-fourths times the total present funded debt, including this issue. Valuation of assets are conservative. The company owns directly a fleet of nearly 500,000 tons, the average age per ton being about 8 years. This fleet is carried at \$64,090,894, or only 52 per cent of its cost. The *Aquitania* is carried at 47 per cent of her cost and the *Mauretania* at only 22½ per cent of her cost. The *Sazonia*, which was recently sold for breaking up for \$221,585, was carried on the company's books at \$79,390. The Cunard Co.'s investment in affiliated shipping concerns is believed to be fully worth the value of \$25,687,166, at which it is carried on the balance sheet.

**Purpose of issue.**—The proceeds to be applied to the general purposes of the company, chiefly the purchase of new assets or the reduction of amounts due in respect of ships delivered to the company.

**Equity.**—These notes are followed by the preferred and ordinary shares which, at current market quotations, indicate an equity of about \$28,000,000.

In the foregoing sterling amounts have been converted into dollars at the rate of \$4.87 to the pound.

The information contained in this prospectus, having been received by cable, is subject to transmission errors.

We offer the above notes when, as, and if issued and received by us, and subject to the approval of our counsel, Messrs. Sullivan & Cromwell, of New York. It is expected that delivery of the notes or of interim receipts will be made about December 1, 1925. Price 100 and interest to yield 5 per cent.

BROWN BROTHERS & Co.  
J. & W. SELIGMAN & Co.  
WHITE, WELD & Co.

*Balance sheet of The Cunard Steamship Co. (Ltd.), December 31, 1924*

		DEBITS		
To share capital:				
Authorized—				
	£1,500,000, 5 per cent cumulative preference stock or shares.....	1,500,000	0 0	
	£1,000,000, 6 per cent second cumulative preference stock or shares.....	1,000,000	0 0	
	£4,500,000 ordinary shares of £1 each.....	4,500,000	0 0	
	The government share.....	20	0 0	
		7,000,020	0 0	<sup>1</sup> \$34,090,097
Issued—				
	5 per cent cumulative preference stock.....	1,500,000	0 0	
	6 per cent second cumulative preference stock.....	1,000,000	0 0	
	4,456,189 ordinary shares of £1 each.....	4,456,189	0 0	
	The government share.....	20	0 0	
		6,956,209	0 0	<sup>1</sup> 33,876,737
To reserve fund.....		1,250,000	0 0	<sup>1</sup> 8,087,500
To 2¾ per cent mortgage debenture stock held by government.....		390,000	0 0	
To interest accrued (since paid).....		5,362	10 0	
		395,362	10 0	<sup>1</sup> 1,925,415
To 7 per cent mortgage debenture stock.....		4,000,000	0 0	
To interest accrued (since paid).....		116,666	13 4	
		4,116,666	13 4	<sup>1</sup> 20,048,167
To loan secured by mortgage on freehold property, pier head, Liverpool.....		232,725	15 11	<sup>1</sup> 1,133,375
To employees' savings fund.....		109,276	11 8	<sup>1</sup> 532,177
To creditors and credit balances.....		11,568,329	17 7	<sup>1</sup> 56,337,767
To profit and loss account:				
	Balance from last account.....	158,618	19 9	
	Add profit for the year 1924.....	393,968	8 7	
		552,587	8 4	
Deduct dividends to June 30, 1924, on the preference stock—				
	£1,500,000 at 5 per cent.....	37,500	0 0	
	£1,000,000 at 6 per cent.....	30,000	0 0	
		67,500	0 0	
		485,087	8 4	<sup>1</sup> 2,362,376
		25,113,657	16 10	<sup>1</sup> 122,303,514

NOTE.—There are liabilities on contracts for new steamships.

<sup>1</sup>The conversion of sterling into dollars on this balance sheet has been made by the issuing bankers at exchange \$4.87 to the pound.

<sup>2</sup>Of this item, \$28,482,322 are in respect of the following and therefore not in the nature of current liabilities: (1) Reserve for contingencies, insurance, and other company funds; (2) reserves against war claims by British Government, since settled; (3) amounts due to the Cunard Steamship Company subsidiaries; (4) instalments not yet due on ships acquired.

CREDIT			
	£	s. d.	
By steamers and shipping investments.....	18,434,919	15 0	\$89,778,060
By freehold and leasehold properties.....	717,352	0 0	'3,494,478
By plant, machinery, spare gear, furniture, etc.....	104,443	0 0	'508,637
By ships' stores, coal, fuel oil, provisions, wines, linen, etc.....	388,057	1 11	'1,880,838
By debtors and debit balances (including agents' and branch balances).....	1,603,061	5 6	'7,806,908
By general investments.....	2,502,866	13 0	'12,188,961
By discount on 7 per cent mortgage debenture stock (less proportion written off).....	340,710	0 0	'1,659,258
By cash at bankers and in hand.....	1,022,048	1 5	'4,977,374

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25,113,657 18 10 '122,303,514

PERCY E. RATES,  
A. C. F. HENDERSON,  
*Directors.*  
W. DRANFIELD,  
*Secretary.*

REPORT OF AUDITORS TO THE SHAREHOLDERS

We have audited the above balance sheet with the books and accounts of the company in Liverpool and with returns from the agencies. The stocks of ships' stores, coal, fuel oil, provisions, wines, linen, etc., have been taken and certified by officers of the company. We have obtained all the information and explanations we have required. In our opinion such balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the company.

COOPER BROS. & Co.,  
*Chartered Accountants, Auditors.*

LONDON, *March 18, 1925.*

**\$2,500,000 (TOTAL ISSUE) THE CUNARD STEAMSHIP CO. (LTD.), 2-YEAR 4½ PER CENT EXTERNAL GOLD NOTES**

To be dated December 1, 1927. To mature December 1, 1929.

Interest payable June 1 and December 1. Coupon notes in interchangeable denominations of \$10,000 and \$1,000. Principal and interest payable at the office of Brown Bros. & Co., New York, fiscal agents for the loan, in United States gold coin, without deduction for any British taxes. Redeemable at the option of the company as a whole at 100 and accrued interest on any interest date on 60 days' notice. Notes will be authenticated by the Hanover National Bank of New York. The Hanover National Bank of New York, registrar.

The following information has been furnished us by Sir Thomas Royden, Bart., C. H., chairman of the Cunard Steamship Co. (Ltd.):

*Business.*—The Cunard Line, established in 1840, is not only the pioneer trans-Atlantic steamship line but, through its subsidiaries, has an important interest in the valuable trades between India and Australia and Europe and the United States. The total fleet of the Cunard Steamship Co. (Ltd.) and its controlled companies aggregates nearly 1,000,000 tons (including ships under construction). The British Government has a nominal interest in the stock of the company.

*Purpose of issue.*—The Cunard Steamship Co. is already known in the financial market of New York through its borrowing two years ago of \$7,500,000 in the form of 5 per cent gold notes. These notes mature December 1, 1927. It is the intention of the company to repay two-thirds of this issue, that is to say \$5,000,000, in cash, and the remainder through proceeds of the present note issue, thereby retaining though in smaller degree the company's connection with the New York finance market.

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<sup>1</sup> The conversion of sterling into dollars on this balance sheet has been made by the issuing bankers at exchange \$4.87 to the pound.

*Earnings.*—During the past five years the disposable balances after allowances for depreciation, taxation, etc., have been as follows:

Year	Balance available for interest	Bond interest and discount	Surplus <sup>1</sup>
1922	\$3,680,000	\$1,758,000	\$1,922,000
1923	3,646,000	1,741,000	1,905,000
1924	3,642,000	1,723,000	1,919,000
1925	3,064,000	1,412,000	1,652,000
1926	4,250,000	1,360,000	2,890,000

<sup>1</sup> Before interest on the \$7,500,000, 2-year 5 per cent gold notes due December 1, 1927.

For the 5-year period ended December 31, 1926, surplus as above after charges including bond interest was equivalent on an average to approximately eighteen times the annual interest requirement of these notes and for the year ended December 31, 1926, was equivalent to approximately twenty-five times such interest requirement.

*Issue of additional shares.*—Concurrently with issue of this prospectus the company has arranged for the issue and sale to its existing ordinary shareholders of 1,100,000 additional ordinary shares at par (£1).

*Equity.*—These notes are followed by the preferred and ordinary shares which, at current market quotations, indicate an equity of about \$40,000,000, which compares with an equity of about \$28,000,000 two years ago.

In the foregoing, sterling amounts have been converted into dollars at the rate of \$4.87 to the pound.

We offer the above notes, when, as, and if issued and received by us and subject to the approval of our counsel, Messrs. Sullivan & Cromwell, of New York. It is expected that delivery of the notes or of interim receipts will be made about December 1, 1927. Price 100 and interest to yield 4½ per cent.

*Balance sheet of the Cunard Steamship Co. (Ltd.), December 31, 1926*

DEBTOR			
To share capital:			
Authorized—			
£1,500,000 5 per cent cumulative preference stock or shares	1,500,000	0 0	
£1,000,000, 6 per cent second cumulative preference stock or shares	1,000,000	0 0	
4,500,000 ordinary shares of £1 each	4,500,000	0 0	
The Government share	20	0 0	
	7,000,020	0 0	<sup>1</sup> \$34,090,097
Issued—			
5 per cent cumulative preference stock	1,500,000	0 0	
6 per cent second cumulative preference stock	1,000,000	0 0	
4,456,189 ordinary shares of £1 each	4,456,189	0 0	
The Government share	20	0 0	
	6,956,209	0 0	<sup>1</sup> 33,876,737
To reserve fund	1,350,000	0 0	<sup>1</sup> 6,574,500
To 2¼ per cent mortgage debenture stock held by Government	130,000	0 0	
To interest accrued (since paid)	1,787	10 0	
	131,787	10 0	<sup>1</sup> 641,805

<sup>1</sup> The conversion of sterling into dollars on this balance sheet has been made by the issuing bankers at exchange \$4.87 to the pound.

	£	s.	d.	
To 5 per cent mortgage debenture stock.....	4,000,000	0	0	
To interest accrued (since paid).....	83,333	6	8	
	<u>4,022,333</u>	<u>6</u>	<u>8</u>	\$10,385,833
To loan secured by mortgage on freehold property, pierhead, Liverpool.....	215,077	19	9	\$1,051,813
To 5 per cent 2-year gold notes issued in United States of America.....	1,546,391	15	1	
To interest accrued (payable June 1, 1927).....	6,443	6	0	
	<u>1,552,835</u>	<u>1</u>	<u>1</u>	\$7,562,307
To employees' savings fund.....	103,118	17	7	\$502,189
To creditors and credit balances.....	7,598,962	0	2	\$37,006,945
To profit and loan account:				
Balance from last account.....	169,752	12	9	
Add profit for the year 1926.....	516,329	8	10	
	<u>686,082</u>	<u>1</u>	<u>7</u>	
Less amount transferred to reserve fund...	100,000	0	0	
	<u>586,082</u>	<u>1</u>	<u>7</u>	
Deduct dividends to June 30, 1926, on the preference stocks—				
£1,500,000, at 5 per cent.....	£37,500			
£1,000,000, at 6 per cent.....	30,000			
	<u>67,500</u>	<u>0</u>	<u>0</u>	
	<u>518,582</u>	<u>1</u>	<u>7</u>	\$2,525,495
	<u>22,510,805</u>	<u>16</u>	<u>10</u>	\$109,627,624

OR.

	£	s.	d.	
By steamers and shipping investments.....	16,406,060	14	3	\$79,897,516
By freehold and leasehold properties.....	681,952	0	0	\$3,321,106
By plant, machinery, spare gear, furniture, etc.....	96,372	0	0	\$469,332
By ships' stores, coal, fuel oil, provisions, wines, linen, etc.....	406,633	19	4	\$1,980,307
By debtors and debit balances (including agents' and branch balances).....	1,367,100	14	11	\$6,657,780
By general investments.....	2,471,392	2	11	\$12,035,680
By discount and commission on 5 per cent mortgage debenture stock.....	140,000	0	0	\$681,800
By cash at bankers in the name of the trustee for 5 per cent mortgage debenture stock holders.....	40,417	8	0	\$196,833
By cash at bankers and in hand.....	900,876	17	5	\$4,387,270
	<u>22,510,805</u>	<u>16</u>	<u>10</u>	\$109,627,624

PERCY E. BATES,  
T. ROYDEN,

*Directors.*  
W. DEANFIELD, *Secretary.*

## REPORT OF THE AUDITORS TO THE SHAREHOLDERS

We have audited the above balance sheet with the books and accounts of the Company in Liverpool and with returns from the agencies. The stocks of ships'

\*The conversion of sterling into dollars on this balance sheet has been made by the issuing bankers at exchange \$4.87 to the pound.

stores, coal, fuel oil, provisions, wines, linen, etc., have been taken and certified by officers of the company. We have obtained all the information and explanations we have required. In our opinion such balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the company.

COOPER BEOS. & Co.,  
Chartered Accountants, Auditors.

LONDON, March 23, 1927.

**\$3,000,000 BERLIN CITY ELECTRIC Co. 6½ PER CENT NOTES UNCONDITIONALLY GUARANTEED AS TO PAYMENT OF PRINCIPAL AND INTEREST, BY INDORSEMENT ON EACH NOTE, BY BERLIN CITY GAS Co.**

Dated February 1, 1926. Due, \$1,000,000 February 1, 1928; \$2,000,000 February 1, 1929. Interest payable February 1 and August 1. Principal and interest payable in New York City at the office of Hallgarten & Co., in United States gold coin, free from all present or future German taxes. Coupon bonds in denomination of \$1,000, registerable as to principal. Callable in whole or part on any interest date upon not less than six months' notice, at their face amount and accrued interest, with a premium of one-half of 1 per cent for each unexpired year or fraction thereof. The Bank of America, New York City, registrar.

We quote the following from information furnished by the two companies: "The two companies (Berliner Städtische Elektrizitätswerke A.-G. and Berliner Städtische Gaswerke A.-G.) were organized by the city of Berlin, Germany, in 1923, for the purpose of separately operating the electrical and gas works formerly operated by the city, all the stock of both companies being owned by the city of Berlin. The first installation of electrical works was made in 1884, and of gas works in 1825. Berlin has a population of approximately 4,000,000 and is the third largest city in the world. The Electric Co. supplies about 80 per cent and the Gas Co. about 75 per cent of the total consumption of the city in their respective fields.

*Electric company.*—The present capacity of the company's plants is over 205,000 kilowatts and it also purchases a substantial amount of additional current. The company is now engaged in expanding its plants and constructing an additional one to be ready by October, 1926, which will make the total generating capacity of 400,000 kilowatts. The distribution lines have a total extent of about 6,600 miles.

Current is supplied for domestic use as well as for the local street and underground railroad and for numerous industrial plants in the city and surrounding territory.

Sales in 1924 amounted to over 462,000,000 kilowatt-hours, and for 1925 were over 662,000,000 kilowatt-hours. The number of customers during 1924 increased from 216,333 to 273,737, a gain of 57,454 (25 per cent), and in 1925 again increased to 358,669, a gain of 84,882 (30 per cent).

*Gas company.*—The Gas Co. supplies gas for domestic and industrial use, its plants having a daily capacity of over 64,000,000 cubic feet. Sales in 1924 amounted to about 11,200,000,000 cubic feet, and in 1925 to about 13,800,000,000 cubic feet.

*Rates.*—The city of Berlin (which owns all the stock of both companies) has agreed that rates for both services will be sufficient to cover operating expenses, rental (8 per cent of gross), depreciation, interest, and amortization of loans, and to provide necessary working capital.

*Earnings.*—The net earnings of the Electric Co. in 1924 after all expenses, including heavy charges for depreciation, reserves, etc., were over \$4,500,000, and for 1925 are estimated to be about the same as in 1924. Such earnings were at the rate of over seven times maximum interest requirements on funded debt including this issue. The net earnings of the Gas Co. applicable to the guaranty were in 1924 over \$1,800,000, and for 1925 about \$2,000,000. No allowance for the introduction of this new money has been made in the above figures. It is expected that the additional facilities provided out of the proceeds of this loan and the European loan hereinafter referred to, will add substantially to earning power upon completion.

*Description of issue.*—This loan will be the direct obligation of the Berlin City Electric Co., and unconditionally guaranteed as to payment of principal

and interest, by indorsement on each note, by the Berlin City Gas Co. The Gas Co. has no funded debt, but the Electric Co. has recently secured a loan in Europe of 30,000,000 Swiss francs (about \$6,000,000), due in 1940, the proceeds of the European loan and of this loan being used only in the construction of additional generating capacity. The European loan is the obligation of the Electric Co. and not secured by mortgage.

This 6½ per cent loan is to be free of all German taxes, local, state, and national, present or future, and the notes are to be payable, principal and interest, in United States gold coin at the office of Hallgarten & Co., New York City.

The electric company has agreed that if during the life of this loan it shall pledge any of its revenues as security for any other loan, these notes shall be equally and ratably secured thereunder.

*Dawes plan.*—Neither of the companies is directly liable for payments under the Dawes plan, but each shares with the other departments of the city of Berlin in the legal obligations for the execution of the plan. This obligation for the entire city for the year ending in September, 1926, amounts to \$475,000, increasing to a maximum annual payment in 1928 of \$1,150,000. This total is, however, divided among some 75 departments, including such income producing activities as waterworks, tramways, subways, harbor works, warehouses, markets, etc., in a proportion not yet determined.

(Figures stated in United States dollars have been converted from German reichsmarks at the rate of 4.2 reichsmarks per dollar.)

These notes are offered when, as and if issued and accepted by us and subject to the approval of counsel. We reserve the right to reject subscriptions in whole or in part, to allot less than the amount applied for and to close the subscription books at any time without notice. Temporary notes or interim receipts deliverable in the first instance.

*Price.*—Notes due February 1, 1928, 99 and interest, to yield over 7 per cent. Notes due February 1, 1929, 98½ and interest, to yield over 7 per cent.

HALLGARTEN & Co.  
 HALSEY, STUART & Co. (INC.).  
 GOLDMAN, SACHS & Co.  
 LEHMAN BROS.  
 J. & W. SELIGMAN & Co.

*Leonhard Tietz Aktiengesellschaft, balance sheet as at July 31, 1925, giving effect to the issue of \$3,000,000 20-year 7½ per cent mortgage gold bonds and the transactions in connection therewith*

## ASSETS

Current assets:		
Cash in banks and on hand.....		\$1,502,851.31
Accounts receivable.....		929,977.28
Merchandise on hand.....		8,000,719.62
		<u>10,433,548.21</u>
Accounts receivable from subsidiary companies....	\$334,725.25	
Stocks of subsidiary companies.....	631,776.24	
		<u>966,501.49</u>
NOTE.—In the above valuation of stocks of subsidiary companies, prior mortgages of \$364,811.64 and unsecured revalued obligations of \$38,675 have been deducted.		
Land and buildings.....	\$4,795,358.93	
Machinery and equipment.....	214,544.15	
		<u>5,009,903.08</u>
NOTE.—The land and buildings, which are carried at a total value of \$6,018,478.30 on the books of either the company or its subsidiary companies, were appraised by Mr. Georg Falck of Cologne, Germany, on Aug. 18, 1924, and Oct. 14, 1925, at an aggregate value of \$16,181,512.		
Prepaid interest on notes.....		55,216.00
		<u>16,525,168.78</u>

## LIABILITIES

Current liabilities:	
Bank advances and trade accounts payable.....	\$3,724,392.82
Sundry debts, reserves for taxes, tantiemes, etc.....	1,214,340.74
	4,938,733.56
Prior mortgages on real estate.....	1,107,062.71
20-year 7½ per cent mortgage gold bonds, due 1946.....	3,000,000.00
Unsecured revalued obligations.....	115,668.00
	9,161,464.27
Contingent liability on bills discounted.....	<u>\$82,494.37</u>

## CAPITAL

Capital stock:	
Preferred, 7 per cent, class A.....	47,600.00
Preferred, 7 per cent, class B (less \$323,787.10 in treasury).....	9,412.90
Common.....	5,950,000.00
	6,007,012.90
Surplus:	
Reserve.....	\$773,500.00
Employees' relief fund.....	130,900.00
Unallocated profits.....	452,291.61
	1,356,691.61
	7,363,704.51
	<u>10,525,168.78</u>

NOTE.—The liability for prior mortgages and unsecured revalued obligations of the company and the subsidiaries is stated as estimated by German counsel under the revaluation law of July 16, 1925. The liabilities, as stated above, do not include any capital amount for liability under the Dawes plan. German counsel estimates that the maximum secured charges under the Dawes plan are not in excess of \$1,600 per year and that the additional unsecured payments for the equalization tax provided for in the same connection are not in excess of \$75,000 per year.

We have examined the accounts of Leonhard Tietz Aktiengesellschaft as at July 31, 1925, and the agreement dated January 30, 1925, as amended by supplemental agreement of January 22, 1926, for the sale of \$3,000,000 twenty-year 7½ per cent mortgage gold bonds, due January 1, 1946. We certify that the above balance sheet, in our opinion, correctly sets forth the financial position of the company at that date, after giving effect to the issue of the said bonds and the transactions in connection therewith.

We further certify that, in our opinion, the net profits of Leonhard Tietz Aktiengesellschaft available for interest on the present issue of bonds, after deducting (1) depreciation of real estate and plant, based on book values, (2) all taxes, excepting income taxes; (3) interest on all other indebtedness, including for 1924 interest on revalued mortgages at the statutory rate for 1925, but after allowance for the saving of interest which would have been effected by the proceeds of this financing; and (4) an allowance at the rate of \$76,600 per annum for payments required to be made under the Dawes plan, were as follows:

Year ended Dec. 31, 1924.....	\$1,521,818.16
Seven months ended July 31, 1925.....	882,526.53

We further certify that the total sales for the year ended December 31, 1924, were \$24,381,344, and for the seven months ended July 31, 1925, were \$14,773,612.

We further certify that the profits remaining for the common stock, adjusted as above, after further deducting interest on the present issue of bonds, tantiemes, income taxes, and dividends on preferred stock, but before deducting appropriations to employees' relief fund, would have amounted to \$961,534.18, or the equivalent of \$3.85 per share of common stock for the year ended December 31, 1924, and to \$571,981.02 or the equivalent of \$2.29 per share for the seven months ended July 31, 1925.

In the above figures, conversion of German to United States currency has been made at the rate of one reichsmark equals 23.8 cents.

LYREAND, ROSS BROS. & MONTGOMERY,  
Accountants and Auditors.

NEW YORK, January 22, 1926.

**\$9,000,000 REPUBLIC OF CUBA SERIAL 5½ PER CENT GOLD BONDS**

Dated July 1, 1927. Due, \$900,000 annually July 1, 1928, to July 1, 1937, inclusive. Interest payable January 1 and July 1.

Not redeemable before the respective maturities.

Coupon bonds in denomination of \$1,000. Principal and interest payable in gold coin of the United States of America of the present standard of weight and fineness, free from any Cuban taxes present or future, at the office of J. P. Morgan & Co., in the city of New York, or, at the option of the holder, at the office of the National City Bank of New York in the city of Habana.

His Excellency Santiago Gutierrez de Cella, secretary of the treasury of the Republic of Cuba, makes the following statement in connection with this issue:

*Purpose of issue.*—These serial bonds are being issued to fund internal floating debt now outstanding in the form of certificates of indebtedness.

*Public debt.*—The funded debt of the Republic of Cuba was reduced by approximately \$40,000,000 during the four years ended February 28, 1927, to an outstanding amount of \$90,130,100, of which \$79,464,000 was external debt. Upon the completion of this financing, the floating debt will amount to less than \$6,000,000.

*Revenues and expenditures.*—During the four fiscal years ended June 30, 1926, the ordinary revenues of the Government exceeded its ordinary expenditures by over \$24,000,000. This surplus of revenues was applied chiefly to the amortization of Government debt, in addition to the ordinary sinking fund payments on Government loans included in the budget of ordinary expenditures. Preliminary figures indicate that the Government's budget for the year ending June 30, 1927, may be closed with a small deficit.

*Monetary system.*—Apart from a comparatively small amount of gold coin and subsidiary coins minted by the Government, the money in circulation in Cuba consists entirely of United States currency. The United States currency held in the treasury, in the banks, and in general circulation in Cuba was estimated, as of June 30, 1926, to amount to more than \$200,000,000.

The above serial bonds are offered for subscription, subject to the conditions stated below, at prices to yield 5.25 per cent for all maturities, plus accrued interest.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m., Friday, July 1, 1927. The right is reserved to close the subscription books at any time, to reject any and all applications, and also in any case to allot smaller amounts than applied for. Orders for an equal amount of each maturity will receive prior consideration. All subscriptions will be received subject to due delivery to us of the bonds, and to approval by counsel of the relevant documents and authorizations.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or before July 25, 1927), will be stated in the notices of allotment. Temporary bonds, exchangeable for definitive bonds when received, are to be delivered.

J. P. MORGAN & CO.  
GUARANTY CO. OF NEW YORK.  
HARRIS, FORBES & CO.  
KUEHN, LOEB & CO.

J. & W. SELIGMAN & CO.  
THE NATIONAL CITY CO.  
BANKERS TRUST CO. NEW YORK.  
DILLON, READ & CO.

**\$5,000,000 MORTGAGE BANK OF THE VENETIAN PROVINCES—25-YEAR 7 PER CENT EXTERNAL SECURED SINKING FUND GOLD BONDS, SERIES A**

Authorized \$20,000,000. Series A \$5,000,000. To be dated October 1, 1927. To mature October 1, 1952. Coupon bonds in interchangeable denominations of \$1,000 and \$500 registerable as to principal only. Interest payable April 1 and October 1. Principal and interest payable at the office of the fiscal agents, Messrs. J. & W. Seligman & Co. in New York City, in United States gold coin or of equal to the standard of weight and fineness existing on October 1, 1927, without deduction for present or future taxes levied by or within the Kingdom

of Italy. Redeemable, as a whole or in part, on at least 30 days' notice at par and accrued interest. Central Union Trust Co. of New York, trustee.

Cumulative sinking fund payable semiannually calculated to retire entire issue at or before maturity by redemption at par and accrued interest commencing April 1, 1928. The bank may deliver bonds at par in lieu of sinking fund payments and may also anticipate payments, as stated in the trust agreement.

For information regarding this issue reference is made to the letter of Avv. Comm. Riccardo Galli, president of the Mortgage Bank of the Venetian Provinces, to us, which he has summarized as follows:

#### GENERAL

The Mortgage Bank of the Venetian Provinces, established under special charter approved by royal decree, was organized by savings banks of the cities of Verona (established 1825), Padua (1822), Venice (1822), Udine (1876), Treviso (1913), and the Federal credit bank for the reconstruction of the Venetian Provinces, and took over the business of the real estate mortgage department of the savings bank of the city of Verona, established in 1900. Savings banks of Trento (1855), Trieste (1842), Pola (1893), Fiume (1859), and Gorizia (1831) have since become members.

The bank has no capital stock, but in lieu thereof, a guaranty fund has been contributed by its member savings banks in an aggregate amount equivalent to approximately \$1,600,000, all of which has been paid in. In addition, a reserve fund equivalent to approximately \$50,000, has been set up out of profits, and until this reserve fund equals one-half the guaranty fund, at least one-tenth of the amount of the annual net income of the bank must be set aside in this reserve fund. The bank has never incurred a loss on any loan made by it.

The principal office of the bank is in Verona and its branches are operated through its member savings banks. It operates principally in the 16 provinces of northeastern Italy, an agricultural and industrial section with an area of about 20,000 square miles and a population exceeding 6,000,000. The bank is now empowered to extend its operations throughout Italy.

The principal functions of the bank include the making of loans on non-industrial agricultural or urban real estate; to provide funds for the improvement, irrigation, and drainage of agricultural land; to provide for the acquisition or construction of so-called popular or low-priced houses.

#### PURPOSE OF ISSUE

The proceeds of this issue are to be used exclusively for loans against first mortgages on nonindustrial agricultural and urban real estate. The bank has already made preliminary contracts for such loans in the aggregate principal amount of \$5,000,000. Payment of such loans must be in dollars or in lire sufficient to acquire the necessary dollars.

#### SECURITY

The bonds of series A, in the opinion of counsel, will be direct obligations of the bank and will be secured, after the release of the proceeds thereof, by first mortgage obligations in face value equal to 100 per cent of the bonds of series A. Each such first mortgage obligation, in the opinion of counsel, will be secured by a direct first mortgage on nonindustrial agricultural and urban real estate of an appraised fair sale value (as determined by appraisers of the bank or member banks) at least equal to three times the principal amount of such obligation. Such obligations will be specifically set aside by the bank and held solely as security for the bonds of series A. Loans made through and approved by member banks of the bank will be unconditionally guaranteed by them.

#### SUPERVISION

The Italian Government, through the ministry of national economy, is required by law to make examinations of the books and accounts of the bank at least semiannually, and the bank is required to make bimonthly reports of its operations to the Government.

The bank has agreed when requested by the bankers to apply for the listing of these bonds on the New York Stock Exchange.

These bonds are offered when, as, and if issued and accepted by us, and subject to the approval of our counsel, Messrs. Cravath, Henderson & de Gersdorff, of New York City, and Avv. Vittorio E. Baisini, of Milan, Italy. We reserve the right to reject subscriptions in whole or in part, to allot less than the amount applied for and to close the subscription books at any time without notice. Interim receipts of the fiscal agents will be ready for delivery on or about December 1, 1927. Price 95 and accrued interest, to yield 7.45 per cent.

All conversions referred to in the above have been made at the rate of 185 lire per United States dollar, unless otherwise stated.

E. H. ROLLINS & SONS,  
J. & W. SELIGMAN & Co.

MORTGAGE BANK OF THE VENETIAN PROVINCES,  
*Verona, Italy, November 11, 1927.*

MESSRS. E. H. ROLLINS & SONS and J. & W. SELIGMAN & Co.,  
*New York City.*

DEAR SIR: At your request I am pleased to give you the following information with reference to the proposed issue of \$5,000,000 principal amount of 25-year 7 per cent external secured sinking fund gold bonds, series A, of Mortgage Bank of the Venetian Provinces hereinafter called the bank:

GENERAL

The mortgage Bank of the Venetian Provinces was established under special charter approved by royal decree of November 30, 1919. It was organized by savings banks of the cities of Verona (established 1825) Padua (1822), Venice (1822), Udine (1876), Treviso (1913), and the Federal credit bank for the reconstruction of the Venetian Provinces, and took over the business of the real-estate mortgage department of the savings bank of the city of Verona, established in 1900. Savings banks of Trento (1855), Trieste (1842), Pola (1833), Fiume (1859), and Gorizia (1831) have since become members. These savings banks are not operated for profit and their activities are governed by special legislation. They constitute a powerful group and together control more than 2,000,000,000 lire (approximately \$168,000,000) in deposits and reserve funds. The Federal credit bank for the reconstruction of the Venetian Provinces is a Government institution founded in 1919.

The bank has no capital stock, but in lieu thereof a guaranty fund has been contributed by its member savings banks in an aggregate amount of 29,545,333 lire, equivalent to approximately \$1,600,000, all of which has been paid in. In addition a reserve fund of 862,607 lire, equivalent to approximately \$50,000, has been set up out of profits. Under its charter the bank is required to establish a reserve fund and until such reserve fund shall equal one-half the guaranty fund, at least one-tenth of the amount of the annual net income of the bank must be set aside in such reserve fund and the amount of such annual net income which may be distributed to the participating institutions may not exceed 5 per cent of their respective paid in quotas of the above-mentioned guaranty fund. After such reserve fund shall equal one-half of such guaranty fund one-half of the annual net income of the bank may be distributed to the participating institutions and one-half of such net income must be applied to the creation of a special reserve fund against losses. The bank has never incurred a loss on any loan made by it.

The principal office of the bank is in Verona and its branches are operated through its member savings banks. It operates principally in the 16 provinces of northeastern Italy, an agricultural and industrial section with an area of about 20,000 square miles and a population exceeding 6,000,000. The bank is now empowered to extend its operations throughout Italy.

The principal functions of the bank include the making of loans: (1) On nonindustrial agricultural or urban real estate; (2) To provide funds for the improvement, irrigation, and drainage of agricultural land; (3) to provide for the acquisition or construction of so-called popular or low priced houses.

The bank is also authorized to make loans for the payment of capital taxes and for the repair of damages caused by the World War, but these two classes of loans are now of small importance and none of the proceeds of the bonds of series A will be reloaned for these purposes.

The operations of the bank have grown rapidly since its organization, the loans made having increased from about 17,000,000 lire in 1920 to over 240,000,000 lire, or approximately \$13,000,000 as at October 31, 1927.

The bank derives its income chiefly from commissions limited by law which are paid by the borrowers and out of which the expenses of the bank are paid. The charges made to borrowers by the bank are less than the prescribed limits.

#### PURPOSE OF ISSUE

Heretofore loans for the above-mentioned purposes have been made through the issue of internal bonds of the bank and other similar institutions. In view of the constantly increasing demand for such loans, the Italian Government, recognizing the national importance of the work of these institutions, has by royal decree of February 13, 1927, No. 187, authorized the issue of external bonds by the respective mortgage banks, and pursuant to such decree and to the royal decree of March 3, 1927, No. 270, specifically authorizing the issue of external bonds by the bank, approval of this issue has been given in accordance with the ministerial decree of March 20, 1927. The net proceeds of the bonds of series A will be deposited with the savings bank of the city of Verona as depositary to be withdrawn by the bank under restrictions to be contained in the trust agreement only for the purpose of making loans against the first mortgage obligations hereinafter referred to and only upon delivery to such depositary of evidence that the required security for such loans is held by the bank. The bank has already made preliminary contracts for such loans in the aggregate principal amount of \$5,000,000. Payment of such loans must be in dollars or in lire sufficient to acquire the necessary dollars.

#### SECURITY

The bonds of series A, in the opinion of counsel, will be direct obligations of the bank and will be secured after the reloan of the proceeds thereof in accordance with the trust agreement, by first mortgage obligations in face value equal to 100 per cent of the bonds of series A. Each such obligation, in the opinion of counsel, will be secured by a direct first mortgage on nonindustrial agricultural and urban real estate of an appraised fair sale value (as determined by appraisers of the bank or member banks) at least equal to three times the principal amount of such obligation, subject in certain cases to current land taxes and local charges (censis) not exceeding 10 per cent of such principal amount, a sum sufficient to discharge which will be retained by the depositary out of the proceeds of such bonds. Under the decrees pursuant to which these bonds will be issued such first mortgage obligations will be specifically set aside by the bank and held solely as security for the bonds of series A. In addition the bank will give to the trustee an irrevocable mandate, so long as any of the bonds of series A shall be outstanding (a) upon the occurrence and during the continuance of any event of default under the trust agreement, under which these bonds will be issued, to collect all amounts payable upon such obligations when and as the same shall become due and payable; (b) in case of default by the borrower under any such obligation, and in case the bank shall fail to take action within 30 days after notice to the bank of such default, to enforce such obligation and the security therefor; and (c) to apply all amounts so collected by it to the payment of the principal of, and interest and sinking fund payments on, the bonds of series A when and as the same shall become due and payable. Each such first mortgage obligation will provide that it can not be canceled or discharged without the written consent of the trustee or its duly authorized representative. Loans made through and approved by member banks of the bank will be unconditionally guaranteed by them. The trust agreement will permit releases of mortgaged properties, provided the fair sale value of the remaining mortgaged properties is at least three times the unamortized amount of the obligations secured thereby.

#### SUPERVISION

The Italian Government, through the ministry of national economy, is required by law to make examinations of the books and accounts of the bank at least semiannually, and the bank is required to make bimonthly reports of its operations to the Government.

## DESCRIPTION OF BONDS

The bonds will be limited to the aggregate principal amount of \$20,000,000 at any one time outstanding. The bonds of series A will be dated October 1, 1927; will mature October 1, 1952, and will bear interest at the rate of 7 per cent per annum, payable semiannually on April 1 and October 1 in each year. They will be issued in coupon form and in interchangeable denominations of \$1,000 and \$500, registerable as to principal only. Temporary bonds exchangeable for definitive bonds when prepared and ready for delivery may be delivered in the first instance. The principal of, and interest on, the bonds will be payable at the office of the fiscal agents, Messrs. J. & W. Seligman & Co., in New York City, in United States gold coin of or equal to the standard of weight and fineness existing on October 1, 1927, without deduction for any present or future taxes levied by or within the Kingdom of Italy. The bonds of series A will have the benefit of a cumulative sinking fund payable in semi-annual instalments calculated to retire the entire issue at or before maturity by redemption by lot at par and accrued interest commencing April 1, 1928, subject to the right of the bank to deliver bonds at par in lieu of sinking fund payments. The bank will also have the right to anticipate sinking fund payments in cash or in bonds of this series and thus become entitled to credits in respect of subsequent payments as stated in the trust agreement. The bonds of series A will be redeemable at the option of the bank on any interest date, as a whole or in part, on 30 days' notice at par and accrued interest. These bonds will be issued under a trust agreement executed by the bank and Central Union Trust Co. of New York, as trustee.

## ISSUE OF ADDITIONAL BONDS

The \$15,000,000 of additional bonds authorized under such trust agreement will be reserved for issue in one or more series, other than series A, for the purpose of making additional loans of the three classes above mentioned on terms and conditions not inconsistent with the trust agreement, to be determined by the board of directors of the bank at the time of issue thereof and to be set forth in a supplemental agreement between the bank and the trustee. The trust agreement will provide that each series of bonds will be separate and distinct as to security and sinking fund, and that while any of the bonds are outstanding the bank will not issue any bonds or other obligations which together with all its other bonds and obligations then outstanding shall exceed fifteen times its paid in and then existing capital.

## LISTING

At your request application will be made promptly to list these bonds on the New York Stock Exchange.

Yours very truly,

*RICCARDO GALLI, President.*

All conversions referred to in the above have been made at the rate of 18.5 lire per United States dollar, unless otherwise stated.

The information and statistics contained in this circular, part of which have been received by cable, have been obtained from sources which we believe reliable and on which we have based our purchase of the securities offered, but are not to be considered representations by us. All bonds offered subject to prior sale and change in price without notice.

**\$3,000,000 LEONHARD TIETZ AKTIENGESELLSCHAFT (LEONHARD TIETZ (INC.),  
20-YEAR 7½ PER CENT MORTGAGE GOLD BONDS (WITH STOCK PURCHASE  
WARRANTS)**

To be dated January 1, 1926. To mature January 1, 1946. To be presently authorized and issued \$3,000,000.

Coupon Bonds in denominations of \$1,000 and \$500, registerable as to principal. Interest payable January 1 and July 1 at the Corn Exchange Bank, New York, in United States gold coin of the standard of weight and fineness existing January 1, 1926, without deduction for German taxes of any nature, present or future. Callable at the option of the company in whole or in part by lot on any interest date on and after January 1, 1931, upon 60 days' notice

at 105 and accrued interest. The Corn Exchange Bank, New York, American trustee. Deutsche Warentreuhand Aktiengesellschaft, German trustee.

As a sinking fund the company will agree on or before January 1 in each year to and including January 1, 1931, to surrender for cancellation bonds aggregating 5 per cent of the principal amount of this issue provided such bonds can be purchased at or below 102½ and accrued interest. The company agrees on or before January 1 of each year thereafter to surrender for cancellation or to redeem at 105 bonds aggregating the same amount.

Mr. Alfred Leonhard Tietz, a managing director of Leonhard Tietz Aktiengesellschaft, has summarized in part his accompanying letter as follows:

#### HISTORY AND BUSINESS

The principal activity of the company is the operation of a chain of modern department stores. Leonhard Tietz was a pioneer in the department store business in Germany. The business, founded in 1879, has become one of the largest retail organizations in Europe with a chain of 19 up-to-date department stores, in nearly every case the largest in their respective cities. Among the cities in which the stores are located are included Cologne, Düsseldorf, Elberfeld and Aachen. Ninety-five per cent of our retail business is for cash. Fourteen of our retail establishments, located on valuable sites, are owned in fee, and provide us with a total of 2,040,000 square feet of floor space. In all, there are over 6,000 people employed in the retail departments.

#### ASSETS

The balance sheet of the company, as of July 31, 1925, adjusted to give effect to the present financing, as certified by Messrs. Lybrand, Ross Bros. & Montgomery, shows total net assets applicable to these bonds, after deduction of all other liabilities, of \$10,303,704.51. Real estate, which consists of up-to-date buildings on valuable central sites, owned by the company and wholly owned subsidiaries, is carried on their respective balance sheets as \$6,018,478.30, which is the same value put upon the property in the companies' opening gold mark balance sheets as of January 1, 1924, plus subsequent additions, and less depreciation. This figure, as was customary in the case of opening gold mark balance sheets because of tax and other consideration represented an extremely low valuation, as is evident from the appraisals of Mr. Georg Falck dated August 18, 1924, and October 14, 1925, which value the properties at \$16,181,512. The assessed valuation, which in Germany is customarily substantially below the actual value, is \$10,880,490.

The actual value of the net assets applicable to these bonds, including real estate at the appraised valuation, after deduction of all other liabilities, is thus about \$20,526,738 or over \$6,842 per \$1,000 bond.

#### SALES AND PROFITS

Net sales, as certified by Messrs. Lybrand, Ross Bros. & Montgomery, for the year 1924 were \$24,381,344, and for the first seven months of the year 1925 were \$14,500,000.

Earnings available for interest on these bonds, after all taxes, except income taxes, and after ordinary depreciation charges, for the year 1924 were \$1,521,818.16 or 6.75 times the amount required for interest on this issue; and for the first seven months of the year 1925 were over \$375,000, in each case after allowance for the saving of interest which would have been effected by the proceeds of this financing, as certified by Messrs. Lybrand, Ross Bros. & Montgomery.

#### SECURITY

These bonds will be a direct obligation of the company. They will be secured in the opinion of counsel by direct mortgage lien on all the fixed properties of the company and its wholly owned subsidiaries (except certain property in the city of Berlin, negotiations for the sale of which, at a price substantially in excess of both the book and appraised values, are now in progress), subordinate to the lien of revalued mortgages estimated not to exceed \$1,471,873.85. The company will agree to extend the lien of this mortgage to cover all fixed prop-

erties hereafter acquired, subject to existing liens and to purchase money and construction mortgages.

The business being mainly commercial and not industrial, only a minor part of the company's properties are subject to secured charges under the "Dawes plan," which are estimated not to exceed \$1,000 per year. In order to equalize the reparations burden, however, certain additional unsecured payments are required, which are estimated at a maximum of \$75,000 per year.

#### STOCK PURCHASE WARRANTS

The bonds will be accompanied by warrants entitling the holder at any time on or before January 1, 1931, to purchase shares of the common stock of Leonhard Tietz Aktiengesellschaft at \$26 per share (par value 100 reichsmarks per share). The net earnings, adjusted as above, on the common stock, after deduction of prior charges, for the fiscal year ended December 31, 1924, as certified by Messrs. Lybrand, Ross Bros. & Montgomery, were equivalent on the 250,000 shares now outstanding to \$3.85 per share before the appropriation of \$11,900 to employes' relief fund. For the first seven months of 1925 such profits were over \$2.25 per share. The current market price is approximately \$17. The book value of the stock as indicated by the adjusted balance sheet as of July 31, 1925, was approximately \$29.23 per share, which would be increased to \$69.88 per share if real estate were carried at the appraised value. A cash dividend of 6 per cent (\$1.42) was declared for the fiscal year ended December 31, 1924. Price 97 and accrued interest to yield about 7.80 per cent. The bonds will carry stock purchase warrants in the ratio of 15 shares for each \$1,000 principal amount.

This offering is made in all respects, when, as and if and accepted by us and subject to the approval of our counsel. We reserve the right to reject any and all subscriptions in whole or in part, to allot less than the amount applied for and to close the subscription books at any time without notice.

It is expected that delivery of temporary bond or interim receipts will be made on or about February 24, 1926, at the office of Lehman Bros., 16 William Street, New York, N. Y., against payment therefor in New York funds.

J. & W. SELIGMAN & Co.,  
54 Wall Street, New York.

#### LEONHARD TIETZ AKTIENGESELLSCHAFT,

Cologne, Germany, January 22, 1926.

Messrs. Yehman Bros., Goldman, Sachs & Co., Hallgarten & Co., Halsey, Stuart & Co., (Inc.), J. & W. Seligman & Co., New York, N. Y.

DEAR SIR: In connection with your purchase of \$3,000,000 Twenty-Year 7½ per cent mortgage gold bonds of Leonhard Tietz Aktiengesellschaft (Leonhard Tietz, (Inc.)), I take pleasure in giving you the following information regarding the company and its business:

#### HISTORY

Leonhard Tietz, the founder of the company which bears his name, was a pioneer in the department-store business in Germany. His first venture was a comparatively small store in Stralsund, Germany, which he opened in 1879. The success of this store encouraged him to open a branch in Elberfeld, and eventually led to the establishment of other stores in the principal cities of the Rhineland.

The business had behind it a record of 25 years of steady growth and prosperity when the present company was incorporated in 1905. At that time began what we might term the second period of our development. The older stores were gradually torn down and replaced by larger modern buildings, until in 1914 the company had become one of the largest retail organizations in Europe with a chain of 19 up-to-date department stores.

#### RETAILING

The principal activity of the company is, and will continue to be, the operation of a chain of modern department stores. Each is a complete department

store and in nearly every case the largest in its own city. Among the cities in which they are located are included Cologne, Dusseldorf, Elberfeld, and Aachen. Our merchandising policy is designed to meet the needs of the millions of middle-class people living in the highly industrialized Rhineland. Ninety-five per cent of our retail business is for cash.

Fourteen of our nineteen retail establishments, located on valuable sites, are owned in fee, and provide us with a total of 2,040,000 square feet of floor space. Most of these store buildings are of substantial construction, and, being unusually attractive from an architectural standpoint, are excellent business assets as they attract many visitors yearly. Of the 19 retail establishments, there are 2 with over 1,000 employees, 2 others with over 500 employees, 4 others with over 250 employees, and 11 more which average about 100 employees. In all, there are over 6,000 people employed in the retail departments.

*Buying.*—Although each store maintains its own individuality, especially in respect to carrying the kind of merchandise suitable to the needs of its particular locality, the general buying policy is centralized at the head office in Cologne, supplemented by branch buying offices in the important manufacturing centers of Berlin, Chemnitz, Offenbach, and Plauen. The past success of the business has been largely due to the coordination of our buying departments, and we are continually working further to strengthen this part of our organization.

*Selling.*—Each store having its distinct character in a country where each city has individuality, selling activities are not so greatly centralized as buying activities. However, everything possible is done to cut down overhead expense. There is a continuous exchange of ideas between the managers of the various stores, and these managers frequently gather in Cologne, under the direct supervision of the executives of the company, to discuss questions of management policy and to benefit from their common experience.

*Financing.*—Financial control is also centralized, all bills being sent to Cologne for payment, and the entire financial policy is conducted from the head office at that city.

#### MANUFACTURING AND WHOLESALING

Along with the growth of its retail organization, the company has gradually built up a profitable manufacturing wholesaling business. This department of the business originated in a small way to supply certain prominent articles which were retailed by the company's own stores, but has been gradually extended and is now doing about 50 per cent of its business with other firms. The sales of the wholesale manufacturing department to outside customers in 1924 comprised approximately 10 per cent of the total turnover of Leonhard Tietz, Inc. Factories are now operated in Berlin for dresses, linen goods, shirts, etc.; in Bitburg and Chemnitz for hosiery; in Plauen for laces and embroideries; and in Augsburg, where a weaving mill is located. These establishments cover a total floor space of about 226,000 square feet, and have on their payroll a total of about 1,400 employees. Our own Tietz stores pay the same prices as our other wholesale customers and there is no pressure of any sort brought to bear upon our retail stores to buy goods from our own factories. The continued growth of our wholesale business sustains our policy in entering this field.

#### MANAGEMENT

The management of the company is directed by a board of seven members, who constitute the chief executives in charge of the business, among whom are those responsible for the company's growth since its inception. The members of this board are all directly financially interested in the company and devote all of their time to its affairs. The various branches of the business are thus constantly under their close supervision.

#### ASSETS

Appended hereto is a balance sheet of the company, as of July 31, 1925, adjusted to give effect to the present financing, as certified by Messrs. Lybrand, Ross Bros. & Montgomery. The total net assets applicable to these bonds, after deduction of all other liabilities, in accordance with this balance sheet are \$10,363,704.51. Real estate, which consists of up-to-date buildings on valuable central sites, owned by the company and wholly owned subsidiaries, is carried

on their respective balance sheets at \$6,018,478.30, which is the same value originally put upon the property in the companies' opening gold mark balance sheets as of January 1, 1924, plus subsequent additions and less depreciation. This figure, as was customary in the case of opening gold mark balance sheets after the stabilization of the mark in 1924, because of tax and other considerations, represented an extremely low valuation, as is evident from the appraisals of Mr. Georg Falck dated August 18, 1924 and October 14, 1925, which value the properties at \$16,181,512. The assessed valuation, which in Germany is customarily substantially below the actual value, is \$10,880,490.

The actual value of the net assets applicable to these bonds, including real estate at the appraised valuation, after deduction of all other liabilities, is thus about \$20,526,738, or over \$6,842 per \$1,000 bond. In the balance sheet no account is taken of the company's good will.

#### SALES AND PROFITS

The sales and earnings of the company always showed a constant increase until 1914, when by reason of the war and the subsequent depreciation of the mark, it became impossible to make any comparable statements. Net sales, as certified by Messrs. Lybrand, Ross Bros. & Montgomery, for the year 1924 were \$24,381,344, and for the first seven months of the year 1925 were in excess of \$14,500,000.

Earnings available for interest on these bonds, after all taxes, except income taxes, and after ordinary depreciation charges, for the year 1924 were \$1,521,818.16 or 6.75 times the amount required for interest on this issue; and for the first seven months of the year 1925 were in excess of \$875,000, in each case after allowance for the saving of interest which would have been effected by the proceeds of this financing, as certified by Messrs. Lybrand, Ross Bros. & Montgomery.

#### DESCRIPTION OF BONDS

These bonds will be dated January 1, 1926, will be due January 1, 1946, and will bear interest at the rate of 7½ per cent per annum, payable semiannually on January 1 and July 1. Principal and interest will be payable at the Corn Exchange Bank, New York, in United States gold coin of the standard of weight and fineness existing January 1, 1926, without deduction for German taxes of any nature, present or future. The bonds will be in coupon form in denominations of \$1000 and \$500, registerable as to principal only, and will be callable at the option of the company in whole or in part by lot on any interest date on and after January 1, 1931, upon 60 days' notice at 105 and accrued interest.

These bonds will be a direct obligation of the company. They will be secured in the opinion of counsel by direct mortgage lien on all the fixed properties of the company and its wholly owned subsidiaries (except certain property in the city of Berlin, negotiations for the sale of which, at a price substantially in excess of both the book and appraised values, are now in progress), subordinate to the lien of revalued mortgages estimated not to exceed \$1,471,874.35. The company will agree to extend the lien of this mortgage to cover all fixed properties hereafter acquired, subject to existing liens and to purchase money and construction mortgages.

The business being mainly commercial and not industrial, only a minor part of the company's properties are subject to secured charges under the "Dawes plan," which are estimated not to exceed \$1,600 per year. In order to equalize the reparations burden, however, certain additional unsecured payments are required, which are estimated at a maximum of \$75,000 per year. Neither German law nor any international engagements assumed by the German Government involve any restrictions upon the acquisition by the company of the foreign exchange requisite to permit the company to meet the external obligations evidenced by these bonds.

#### SINKING FUND

The company will agree on or before January 1, in each year to and including January 1, 1931, to surrender for cancellation bonds aggregating 5 per cent of the principal amount of this issue provided such bonds can be purchased at or below 102½ and accrued interest. The company agrees on or before January 1 of each year thereafter to surrender for cancellation or to redeem at 105 bonds aggregating the same amount.

## STOCK PURCHASE WARRANTS

The bonds will be accompanied by warrants entitling the holder at any time on or before January 1, 1931, to purchase shares of the common stock of Leonard Tietz Aktiengesellschaft at \$26 per share (par value 100 reichsmarks per share). The net earnings, adjusted as above, on the common stock after deduction of prior charges for the fiscal year ended December 31, 1924, as certified by Messrs. Lybrand, Ross Bros. & Montgomery, were equivalent on the 250,000 shares now outstanding to \$3.85 per share before the appropriation of \$11,900 to employees' relief fund. For the first seven months of 1925 such profits were over \$2.25 per share. The stock is traded in on the stock exchanges of Berlin and Cologne, the market price having had a range from a low of \$13.56 to a high of \$18.56 during the year 1925. The current market price is approximately \$17. The book value of the stock as indicated by the adjusted balance sheet as of July 31, 1925, was approximately \$29.23 per share, which would be increased to more than \$69.88 per share if the appraised value of the real estate, as described above, were substituted for the amount carried on the balance sheet for this item. A cash dividend of 6 per cent (\$1.42) was declared for the fiscal year ended December 31, 1924, which was the first year since the stabilization of the mark.

## PURPOSE OF ISSUE

The proceeds of this issue of bonds will be used by the company to increase its working capital and to expand its business. We will be enabled to extend our lines of merchandise and will also be able to make certain improvements in our buildings which should prove advantageous in increasing our volume of sales.

For the purpose of this circular, conversion of German to United States currency has been made at the rate of one reichsmark equals 23.8 cents.

Very truly yours,

ALFRED LEONHARD TIETZ.

**28,000 AMERICAN SHARES, REPRESENTING 140,000 DEPOSITED SHARES OF COMMON STOCK, HUNGARIAN GENERAL SAVINGS BANK (LTD.)**

(Magyar Altalanos Takarekpenztar R. T.  
Ungarische Allgemeine Sparcassa A. G.)

CENTRAL UNION TRUST COMPANY OF NEW YORK, DEPOSITARY; AMERICAN EXCHANGE IRVING TRUST COMPANY, REGISTRAR

The American shares have been issued by the depositary under a deposit agreement, and each American share represents five deposited shares of the par value of 50 pengoe each. The deposit agreement provides that subject to all the provisions of the deposit agreement, after July 1, 1933, or such earlier date as may be fixed by J. & W. Seligman & Co. and the bank, American shares may be exchanged for shares of the bank upon payment of all charges and expenses; and that dividends received by the depositary on the deposited shares after deduction of taxes, if any, will be converted into dollars and the proceeds, less all charges and expenses, will be distributed to the holders of American shares. Subject to all of the provisions of the deposit agreement and at the times specified therein additional shares of the bank may be deposited in exchange for American shares. No voting rights attach to the American shares.

We have been advised by Hungarian counsel that the shares deposited against the issue of the American shares included in this offering are fully paid and nonassessable and that under present laws there are no Hungarian taxes to which holders of American shares will be subject.

Copies of the deposit agreement may be obtained at the office of J. & W. Seligman & Co., or John Nickerson & Co. (Inc.), or at the principal office of the depositary.

Dr. Leopold Horvath, president of Hungarian General Savings Bank (Ltd.), has summarized his accompanying letter as follows:

*History and business.*—Hungarian General Savings Bank (Ltd.), established in 1881, is one of the large banks in Hungary. Nine branch offices are maintained in Budapest and 23 in provincial towns in Hungary. No other bank in Hungary has as many branches.

The bank carries on all the usual branches of commercial, savings, and foreign banking. Like most continental European banks, it has assisted in the development of and has substantial investments in a number of financial and industrial companies. A large business in mortgage loans is transacted against which bonds are issued.

*Growth.*—Upon establishment of the bank in 1881 its capital and surplus amounted to about \$410,000 and increased to \$7,700,000 in 1913, when deposits were over \$12,000,000. After the stabilization of the currency in 1925 following the inflation period the bank resumed operations on a gold basis with a capital and surplus of over \$1,700,000 and deposits of over \$5,250,000. Its deposits are now approximately \$15,800,000.

*Capital stock.*—The bank has only one class of stock—common stock of the par value of 50 pengoe per share. There are now outstanding 400,000 shares of which 140,000 shares are deposited under the deposit agreement against which American shares are issued. The Hungarian shares are listed on the Budapest, Vienna, and Trieste Stock Exchanges and are dealt in on the London Stock Exchange. After having given effect to this financing the balance sheet as of December 31, 1928 shows capital and surplus of 33,037,000 pengoe, or \$5,781,475. This is equivalent to \$72.25 for each American share.

*Dividends.*—The bank has an unbroken dividend record since its organization in 1881. A cash dividend of 10 per cent was paid for 1925, 12 per cent for 1926, and 13 per cent for 1927 on the shares of the bank outstanding during those periods. For the year 1928 the dividend was increased to 14 per cent or 7 pengoe per share. This dividend is equivalent to approximately \$6.12 (before deducting charges and expenses) per American share at par of exchange. The American shares are entitled to the full dividend for the year 1929.

All conversions of pengoe to dollars have been made at par of exchange, or \$0.175 per pengoe, and of crowns to dollars at the rate of \$0.20 per crown.

The legality of all proceedings in connection with the issue and deposit of the shares of the bank and the issue of the American shares has been passed upon by Messrs. Cravath, De Gersdorff, Swaine & Wood, New York City, who have relied upon the opinion of Dr. Akusius Vajda, of Budapest as to all matters of Hungarian law.

The American shares are listed on the Boston Stock Exchange.

Price on application.

(The information and statistics contained herein are not guaranteed but have been obtained from sources which we believe to be reliable.)

HUNGARIAN GENERAL SAVINGS BANK (LTD.),  
May 1, 1929.

Messrs. J. & W. SELIGMAN & Co., JOHN NICKERSON & Co. (INC.).

GENTLEMEN With reference to the purchase by you of 140,000 shares of common stock of Hungarian General Savings Bank (Ltd.) against which 28,000 American shares have been issued, I submit the following information:

#### HISTORY AND BUSINESS

Hungarian General Savings Bank (Ltd.), established in 1881, is one of the large banks in Hungary. Nine branch offices are maintained in Budapest and 23 in provincial towns in Hungary. Practically all of the offices outside of Budapest were acquired by merger with existing banks and are all being operated profitably. No other bank in Hungary has as many branches.

The bank carries on all the usual branches of commercial, savings and foreign banking, no difference existing in Hungary between banks and savings banks in respect of business operations. Like most continental European banks, it has assisted in the development of and has substantial investments in a number of financial and industrial companies.

A large business in mortgage loans is transacted against which bonds are issued. Real-estate loans are based upon valuations made by independent appraisers, and, under Hungarian law, can not exceed 50 per cent of appraisal values. The bank has never suffered a loss through failure of a borrower to pay interest or principal on any mortgage loan.

#### GROWTH

Upon establishment of the bank in 1881, its capital and surplus amounted to about \$410,000 and increased to \$7,700,000 in 1913, when deposits were over \$12,000,000. After the stabilization of the currency in 1925 following the infla-

tion period the bank resumed operations on a gold basis with a capital and surplus of over \$1,700,000 and deposits of over \$5,250,000. Its deposits are now approximately \$15,800,000.

Mortgage loans outstanding amounted to approximately \$2,000,000 in 1904, and increased to \$22,000,000 in 1913. The mortgage loan business of the bank was suspended during the inflation period and was not resumed until after revaluation of the currency. Since that time a substantial expansion has taken place, the amount of mortgage loans outstanding having increased from only a nominal amount in 1925 to \$6,480,066 as of December 31, 1928.

The following figures indicate the growth of the bank since its organization in 1881:

Year	Capital	Surplus	Deposits	Dividends (per cent)
1882.....	\$100,000	\$8,708	\$276,788	4½
1885.....	400,000	12,010	322,700	4
1890.....	400,000	19,258	782,700	7
1895.....	400,000	28,467	1,003,235	7
1900.....	800,000	80,003	1,825,832	7.2
1905.....	2,000,000	255,007	2,439,853	6
1910.....	4,000,000	614,000	8,239,296	7.2
1913.....	6,400,000	1,300,000	12,067,053	7.4

Following the fluctuations in the currency during the inflation period in Hungary, the bank resumed operations on a gold basis as of January 1, 1925.

Year	Capital	Surplus	Deposits	Dividends (per cent)
1925.....	\$1,022,700	\$729,050	\$5,285,984	10
1926.....	1,022,700	736,400	7,958,129	12
1927.....	2,100,000	1,334,305	12,331,748	13
1928 <sup>1</sup> .....	3,500,000	2,251,475	15,804,162	14

<sup>1</sup> After having given effect to this financing.

#### CAPITAL STOCK

The bank has only one class of stock, common stock of the par value of 50 pengoe per share. There are now outstanding 400,000 shares of which 140,000 shares are deposited under the deposit agreement against which American shares are issued. The Hungarian shares are listed on the Budapest, Vienna and Trieste Stock Exchanges and are dealt in on the London Stock Exchange.

Upon the stabilization of the Hungarian currency after the war the bank resumed operations on a gold basis and drew up an opening balance sheet as of January 1, 1925, based on a conservative revaluation of assets. After having given effect to this financing the balance sheet as of December 31, 1928, shows capital of 20,000,000 pengoe (\$3,500,000) and surplus of 13,037,00 pengoe (\$2,281,475), or a total of \$5,781,475. This is equivalent to \$72.25 for each American share.

#### DIVIDENDS

The bank has an unbroken dividend record since its organization in 1881. A cash dividend of 10 per cent was paid for 1925, 12 per cent for 1926, and 13 per cent for 1927 on the shares of the bank outstanding during those periods. For the year 1928 the dividend was increased to 14 per cent or 7 pengoe per share. This dividend is equivalent to approximately \$6.12 (before deducting charges and expenses) per American share at par of exchange. The American shares are entitled to the full dividend for the year 1929.

Dividends are declared at the annual stockholders' meeting which is usually held early in each calendar year. Dividends so declared are payable after said meeting, covering the preceding calendar year.

#### Balance sheet

The balance sheet of the bank as of December 31, 1928 after having given effect to this financing was as follows:

(Pengoe converted into dollars at par of exchange or \$0.175 per pengoe)

ASSETS	
Cash on hand and in banks.....	\$3, 625, 750
Pension and benevolent fund investments.....	32, 137
Securities and miscellaneous investments.....	1, 508, 862
Loans and discounts.....	16, 748, 635
Mortgage loans.....	6, 480, 068
Real estate.....	592, 856
	28, 988, 306
Credits guaranteed by customers.....	1, 762, 460
LIABILITIES	
Capital.....	3, 500, 000
Surplus.....	2, 281, 475
Pension and benevolent fund.....	220, 173
Deposits.....	15, 804, 162
Creditors.....	2, 205, 078
Mortgage bonds.....	2, 989, 144
Assigned mortgage loans.....	1, 049, 455
Items in transit.....	606, 735
Unclaimed dividends.....	1, 476
Undivided profits.....	330, 606
	28, 988, 306
Guaranties on customers' behalf.....	1, 762, 460

## HUNGARY

Hungary has a population of over 8,000,000 and an area of 35,000 square miles. It is essentially an agricultural country, but rapid progress is being made along industrial and commercial lines. The soil is very rich and on the basis of per acre production ranks among the most fertile in Europe. Large exports of grain, flour, sugar, live stock, poultry and meat are produced. The principal industries include flour milling, distilling, manufacture of meat products, sugar, textiles, agricultural implement, machinery and electrical appliances.

Hungary has made rapid progress since the issuance in 1924 of the \$50,000,000 international reconstruction loan. The budget has been balanced and the currency stabilized since 1925. Savings bank deposits have increased over 200 per cent since 1925 and over 30 per cent during the last year. The National Bank of Hungary, the central bank of rediscount, has a gold reserve of 47 per cent as compared with 20 per cent required by law.

## MANAGEMENT

The board of directors includes representatives of important European financial and industrial institutions.

Among the principal shareholders of the bank are Assicurazioni Generali (General Insurance Co.), Trieste, one of the oldest and largest European continental insurance companies, Lazard Bros. & Co., (Ltd.), London, and Commercial Bank of Trieste, Trieste.

All conversions of pengoe to dollars have been made at par of exchange, or \$0.175 per pengoe, and of crowns to dollars at the rate of \$0.20 per crown.

Yours very truly,

L. HORVATH,

*President, Hungarian General Savings Bank (Ltd).*

## Balance sheet

The following is a copy of the balance sheet issued by Hungarian General Savings Bank (Ltd.), as of December 31, 1929.

ASSETS	
Cash on hand and in banks.....	\$2, 120, 694
Pension and benevolent fund investments.....	278, 220
Securities and miscellaneous investments.....	2, 380, 419

Loans and discounts.....	\$16,457,638
Mortgage loans.....	7,448,305
Real estate.....	600,819
	29,286,095

Credits guaranteed by customers \$1,848,053.

LIABILITIES

Capital.....	3,500,000
Surplus.....	2,301,250
Pension and benevolent fund.....	281,267
Deposits.....	15,281,973
Creditors.....	1,630,212
Mortgage bonds.....	3,820,595
Assigned mortgage loans.....	1,033,097
Mortgage bonds drawn by lot.....	1,804
Items in transit.....	591,691
Unclaimed dividends.....	2,648
Profits.....	541,558
	29,286,095

Guaranties on customers' behalf \$1,848,053.

(Pengo converted into dollars at par of exchange or \$0.175 per pengoe.)

For the year ended December 31, 1920, a cash dividend of \$6.09 per American share was paid on April 2, 1930.

(The list and summary of J. & W. Seligman & Co.'s participation in foreign issues are here printed in full as follows:)

Summary

	Number of issues	Principal amount	Retired by sinking fund or total redemption	Principal amount now outstanding	Total gross profit of J. & W. Seligman & Co.
Business originated.....	13	\$144,958,000.00	\$6,768,420.00	\$138,189,580.00	\$1,003,192.51
Members of original group.....	11	83,000,000.00	63,836,000.00	19,164,000.00	116,371.15
Members of appearing group.....	24 17	227,958,000.00 1,288,494,000.00	70,604,420.00	157,353,580.00	1,119,563.66 201,702.01
	41	1,516,452,000.00			1,321,265.67

	Latin America		Europe	
	Number of issues	Principal amount	Number of issues	Principal amount
Business originated.....	9	\$128,233,000	4	\$16,725,000
Members of original group.....	2	22,000,000	9	61,000,000
Members of appearing group.....	3	77,065,000	12	991,429,000
	14	227,298,000	25	1,069,154,000

	Japan		Totals	
	Number of issues	Principal amount	Number of issues	Principal amount
Business originated.....			13	\$144,958,000
Members of original group.....			11	83,000,000
Members of appearing group.....	2	\$220,000,000	17	1,288,494,000
	2	220,000,000	41	1,516,452,000

Gross spread on issues originated by J. & W. Seligman & Co. and in which they were members of original group

Name	Principal amount of issue	Points	Gross spread
Province of Lower Austria.....	\$2,000,000	11.5	\$230,000
Dept. of Cauca Valley.....	2,500,000	13.0	325,000
Do.....	1,500,000	8.0	120,000
Housing & Realty Improvement Co.....	1,500,000	8.5	127,500
Costa Rica.....	8,000,000	7.5	600,000
Peru 7's.....	15,000,000	6.5	975,000
Peru 6's.....	50,000,000	5.5	2,750,000
Peru 6's.....	35,000,000	5.0	1,750,000
Province of Callao.....	1,500,000	6.5	97,500
Mortgage Bank of Yugoslavia.....	12,000,000	5.0	600,000
Mortgage Bank of Bogota.....	3,000,000	4.5	135,000
Department of Cundinamarca.....	12,000,000	5.0	600,000
City of Copenhagen.....	15,000,000	3.5	525,000
City of Rio.....	13,000,000	7.5	975,000
Fried. Krupp.....	10,000,000	4.125	412,500
Cunard Steamship.....	7,500,000	1.5	112,500
Leonhard Tietz (Inc.).....	3,000,000	14.0	420,000
Berlin City Electric Co.....	1,000,000	2.731	27,310
Do.....	2,000,000	3.9135	78,270
Republic of Cuba.....	9,000,000	1.122	100,950
Cunard Steamship Co.....	2,500,000	1.375	34,375
Mortgage Bank of Venetian Provinces.....	5,000,000	5.75	287,500
Hellenic Republic.....	7,500,000	.75	56,250
Do.....	7,500,000	.75	56,250
	227,000,000		11,395,935

Average spread 5.02.

Foreign bonds in default in the issuance of which J. & W. Seligman & Co. participated

	Principal Amount Outstanding January 1, 1932
Republic of Bolivia external 25-year secured refunding 8 per cent loan of 1922-24 (due May 1, 1947).....	\$22,072,000
Province of Callao, Peru, guaranteed and secured sinking fund 7½ per cent gold bonds of 1927 (due Jan. 1, 1944).....	1,189,000
Republic of Peru, secured sinking fund gold 7 per cent loan of 1927 (due Sept. 1, 1959).....	14,357,500
Republic of Peru, Peruvian national loan, 6 per cent external sinking fund gold bonds, first series (due Dec. 1, 1960).....	48,383,000
Republic of Peru, Peruvian national loan, 6 per cent external sinking fund gold bonds, second series (due Oct. 1, 1961):	
Dollar bonds.....	24,469,500
Sterling bonds (£1,958,200).....	9,529,580
	120,000,580

*Banking credits granted to foreign governments*

Republic of Peru:	
Date granted.....	May 1, 1930.
Principal amount.....	\$1,520,000.00
Liquidated to date.....	389,349.52
Principal amount now outstanding.....	1,130,650.48
J. & W. Seligman & Co.'s net participation in principal amount now outstanding.....	343,955.76

*J. & W. Seligman & Co. participations in foreign issues 1929 to 1931, inclusive*  
ISSUES ORIGINATED BY J. & W. SELIGMAN & CO.

Date of issue	Amount	Name of issue	Original offering price	Offering made by—
January, 1926...	\$2,000,000	Province of Lower Austria external 7½ per cent gold loan of 1925.	98½	J. & W. Seligman & Co.; F. J. Lisman & Co.
October, 1926...	2,500,000	Department of Cauca Valley (Columbia) 20-year 7½ per cent secured sinking fund gold bonds, 1916.	96½	J. & W. Seligman & Co.; Baker, Kellogg & Co.
December, 1926	1,500,000	Housing & Realty Improvement Co. first mortgage 20-year sinking fund 7 per cent gold bonds.	98	J. & W. Seligman & Co.; E. H. Rollins & Sons; Foreign Trade Securities (Ltd.).
Do.....	8,000,000	Republic of Costa Rica external secured sinking fund 7 per cent gold bonds, 1926.	95½	J. & W. Seligman & Co.; Blyth, Witter & Co. Marshall Field; Glore, Ward & Co.; F. J. Lisman & Co.; Hemphill, Noyes & Co.
March, 1927....	15,000,000	Republic of Peru secured 7 per cent sinking fund gold bonds, 1927.	96½	J. & W. Seligman & Co.; The National City Co.; E. H. Rollins & Sons; Graham, Parsons & Co.; F. J. Lisman & Co.; Ames, Emerich & Co.
April, 1927.....	12,000,000	State Mortgage Bank of Yugoslavia secured 7 per cent sinking fund gold bonds.	92	J. & W. Seligman & Co.; Dillon, Read & Co.
May, 1927.....	1,500,000	Province of Callao, Peru guaranteed and secured sinking fund 7½ per cent gold bonds (1914).	99	J. & W. Seligman & Co.; Hunter, Duin & Co.; Alvin H. Frank & Co.
July, 1927.....	1,500,000	Department of Cauca Valley additional issue 20-year 7½ per cent secured sinking fund gold bonds (1916).	98	J. & W. Seligman & Co.; Baker, Kellogg & Co.
December, 1927	3,000,000	Mortgage Bank of Bogota 20-year 7 per cent sinking fund gold bonds, issue of October, 1927.	92½	J. & W. Seligman & Co.; Central Trust Co. of Illinois.
Do.....	50,000,000	Republic of Peru, Peruvian national loan 6 per cent external sinking fund gold bonds, first series.	91½	J. & W. Seligman & Co.; The National City Co.; Blyth, Witter & Co.; The Guaranty Co. of N. Y.; F. J. Lisman & Co.; Central Union Trust Co.
June, 1928.....	12,000,000	Department of Cundinamarca (Republic of Colombia) external secured 6½ per cent sinking fund gold bonds, 1928.	93½	J. & W. Seligman & Co.; E. H. Rollins & Sons; Redmond & Co.; Graham, Parsons & Co.
October, 1928...	25,000,000 £2,000,000	Republic of Peru, Peruvian national loan, 6 per cent external sinking fund gold bonds, second series due Oct. 1, 1931.	91	J. & W. Seligman & Co.; The National City Co.; Blyth, Witter & Co.; Guaranty Co. of N. Y.; F. J. Lisman & Co.; Central Union Trust Co.
December, 1928	128,000	Hungarian General Savings Bank (Ltd).	85	J. & W. Seligman & Co.; John Nickerson & Co. (Inc.).

ISSUES ORIGINATED BY OTHERS IN WHICH J. & W. SELIGMAN & CO. PARTICIPATED IN ORIGINAL GROUP

August, 1919...	\$15,000,000	City of Copenhagen External 5½ per cent loan of 1919.	93½	Brown Bros. & Co.; J. & W. Seligman & Co.; Lee, Higginson & Co.; Wm. A. Read & Co.
April, 1922.....	13,000,000	City of Rio de Janeiro 25-year 8 per cent external secured sinking fund gold bonds, 1917.	103	Blair & Co. (Inc.); J. & W. Seligman & Co.; White, Weld & Co.; E. H. Rollins & Sons; Halsey, Stuart & Co.; Cassatt & Co.; The Union Trust Co. (Cleveland); Illinois Trust & Savings Bank (Chicago); Mercantile Securities Co. (San Francisco); Bank of Italy (San Francisco); First Securities Co. (Los Angeles).

<sup>1</sup> American shares representing 140,000 deposited shares of common stock.

*J. & W. Seligman & Co. participations in foreign issues 1929 to 1931, inclusive—*  
Continued

ISSUES ORIGINATED BY OTHERS IN WHICH J. & W. SELIGMAN & CO. PARTICI-  
PATED IN ORIGINAL GROUP—Continued

Date of issue	Amount	Name of issue	Original offering price	Offering made by—
December, 1924.	\$10,000,000	Fried. Krupp Aktiengesellschaft (Fried. Krupp (Ltd.)), 7 per cent merchandise secured gold dollar notes.	99½	Goldman, Sachs & Co.; White Weld & Co.; Hallgarten & Co.; Lehman Bros.; J. & W. Seligman & Co.; Halsey, Stuart & Co.; Kleinwort, Sons & Co. (London).
November, 1925	7,500,000	Cunard Steamship Co., 5 per cent external gold notes.	100	Brown Bros. & Co.; J. & W. Seligman & Co.; White, Weld & Co.
January, 1926...	3,000,000	Leonhard Tietz Aktiengesellschaft (Leonhard Tietz (Inc.)) 20-year (closed) mortgage gold 7½.	(1)	Lehman Bros.; Goldman, Sachs & Co.; Hallgarten & Co.; Halsey, Stuart & Co.; J. & W. Seligman & Co.
February, 1926..	3,000,000	Berlin City Electric Co. 6½ per cent notes.	(2)	Hallgarten & Co.; Halsey, Stuart & Co.; Goldman, Sachs & Co.; Lehman Bros.; J. & W. Seligman & Co.
July, 1927.....	9,000,000	Republic of Cuba serial 5¼ per cent gold bonds.	(2)	J. P. Morgan & Co.; Kuhn, Loeb & Co.; The National City Co.; Guaranty Co. of N. Y.; Bankers Trust Co. of N. Y.; Harris, Forbes & Co.; J. & W. Seligman & Co.; Dillon, Read & Co.
November, 1927..	2,500,000	The Cunard Steamship Co. (Ltd.) 2-year 4½ per cent external gold notes.	100	Brown Bros. & Co.; J. & W. Seligman & Co.; White, Weld & Co.
Do.....	5,000,000	Mortgage Bank of the Venetian Provinces 25-year 7 per cent external secured sinking fund gold bonds, series A.	95	E. H. Rollins & Sons; J. & W. Seligman & Co.
May, 1930.....	7,500,000	Hellenic Republic 1-year 5½ per cent treasury notes due May 5, 1931.	(2)	Speyer & Co.; J. & W. Seligman & Co.; National City Co.
April, 1931.....	7,500,000	Hellenic Republic 1-year 5¼ per cent treasury notes due May 5, 1932.	99½	Speyer & Co.; J. & W. Seligman & Co.; National City Co.

ISSUES ORIGINATED BY OTHERS IN WHICH J. & W. SELIGMAN & CO. PARTICIPATED  
IN APPEARING GROUP

February, 1919.	\$28,179,000	United Kingdom of Great Britain and Ireland external gold 5½ per cent loan of 1917.	101	J. P. Morgan & Co. and 17 others (J. & W. Seligman & Co. 7th).
October, 1919...	148,379,100	United Kingdom of Great Britain and Ireland 10-year 5½ per cent convertible gold bonds of 1929.	98	J. P. Morgan & Co. and 34 others (J. & W. Seligman & Co. 17th).
Do.....	101,620,900	United Kingdom of Great Britain and Ireland 3-year 5½ per cent convertible gold notes 1922.	96½	J. P. Morgan & Co. and 34 others (J. & W. Seligman & Co. 17th).
September, 1920.	100,000,000	Republic of France 2-year sinking fund external 8 per cent loan of 1920.	100	J. P. Morgan & Co. and 33 others (J. & W. Seligman & Co. 10th).
May, 1921.....	100,000,000	Republic of France 20-year external 7½ per cent loan of 1921.	95	J. P. Morgan & Co. and 27 others (J. & W. Seligman & Co. 10th).
June, 1922.....	24,000,000	Republic of Bolivia external 25-year secured refunding 8 per cent loan of 1922-1924.	101	Spencer Trask & Co.; Equitable Trust Co.; Stifel-Nichols Investment Co.; Hallgarten & Co.; Halsey, Stuart & Co.; E. H. Rollins & Sons; Cassatt & Co.; Kissel, Kinnicutt & Co.; J. & W. Seligman & Co.

<sup>1</sup> 97 with warrants to purchase 15 shares common at 26 \$1,000 bonds.

<sup>2</sup> 2-year, 99; 3-year, 98½.

<sup>3</sup> To yield 5.25 per cent.

<sup>4</sup> To yield 5¼ per cent.

*J. & W. Seligman & Co. participations in foreign issues 1929 to 1931, inclusive—*  
Continued

ISSUES ORIGINATED BY OTHERS IN WHICH J. & W. SELIGMAN & CO. PARTICIPATED IN OFFERING GROUP—Continued

Date of issue	Amount	Name of issue	Original offering price	Offering made by—
June, 1922.....	\$25,000,000	Kingdom of the Serbs, Croats, and Slovenes secured external gold 8's of 1922.	95½	Blair & Co. (Inc.); E. H. Rollins & Sons; Cassatt & Co.; J. & W. Seligman & Co.; Kissel, Kinnicutt & Co.; Redmond & Co.; Bonbright & Co.; West & Co.; Union Trust Co. (Cleveland).
January, 1923..	50,000,000	Republic of Cuba external 30-year sinking fund 5½ per cent gold bonds of 1923.	99¼	J. P. Morgan & Co.; Kuhn, Loeb & Co.; National City Co.; Guaranty Co.; Bankers Trust Co.; Harris, Forbes & Co.; J. & W. Seligman & Co.; Dillon, Read & Co.
June, 1923.....	25,000,000	Republic of Austria guaranteed 7 per cent gold bonds of 1923.	90	J. P. Morgan & Co. and 42 others (J. & W. Seligman & Co. 26th).
February, 1924..	150,000,000	Empire of Japan 30-year 6½ per cent sinking fund gold bonds of 1924.	92½	J. P. Morgan & Co. and 40 others (J. & W. Seligman & Co. 27th).
August, 1924...	3,065,000	Republic of Bolivia external 25-year secured refunding 8 per cent loan of 1922-1924.	93	Spencer Trask & Co.; Equitable Trust Co.; Stifel-Nicolaus Investment Co.; Halsey, Stuart & Co.; E. H. Rollins & Sons; Kissel, Kinnicutt & Co.; J. & W. Seligman & Co.; J. P. Morgan & Co. and 51 others (J. & W. Seligman & Co. 32nd).
October, 1924...	110,000,000	German Government external 7 loan of 1924, 1929.	92	J. P. Morgan & Co. and 51 others (J. & W. Seligman & Co. 32nd).
November, 1924.	100,000,000	Republic of France 25-year sinking fund external 7 per cent gold loan of 1924.	94	J. P. Morgan & Co. and 44 others (J. & W. Seligman & Co. 31st).
November, 1925.	100,000,000	Kingdom of Italy external 7 per cent gold loan of 1925.	94½	J. P. Morgan & Co. and 32 others (J. & W. Seligman & Co. 24th).
April, 1928.....	55,000,000	Kingdom of Denmark 34-year 4½ per cent external loan gold bonds.	95	Guaranty Co. of New York and 13 others (J. & W. Seligman & Co. 9th).
June, 1928.....	70,000,000	Tokyo Electric Light Co. (Ltd.) first mortgage gold bonds, 6 per cent dollar series due 1933.	90½	Guaranty Co. of New York and 29 others (J. & W. Seligman & Co. 14th).
June, 1930.....	98,250,000	German Government international loan 1930 5½ per cent 35-year gold bonds.	90	J. P. Morgan & Co. heading group of 45 houses (J. & W. Seligman & Co. 22d).

Contracts and other documents requested by the committee are printed in full as follows:

J. & W. SELIGMAN & Co.,  
New York, January 16, 1932.

Hon. REED SMOOT,  
Chairman Committee on Finance,  
United States Senate, Washington, D. C.

My DEAR SENATOR: In my letter of January 12, 1932, with which I returned to the clerk of your committee the corrected transcript of the testimony of Mr. Strauss and myself, given before your committee on January 8, 1932, I stated that I would wish to clarify certain passages in the testimony and correct certain statements, and also that I would furnish certain additional information and documents. We have assembled, and I am inclosing herewith in exhibit form, the information and documents which I understand your committee desired, accompanied by explanatory memoranda. The above-mentioned clarifications and corrections are all set forth either in the respective explanatory memoranda, or at the end of this letter under the heading of "General."

For convenience, I am listing by countries and numbering consecutively the exhibits referred to above:

## COLOMBIA

## MORTGAGE BANK OF BOGOTA

*Exhibit 1.*—Memorandum, with copy of letter and form of release attached thereto, with respect to the commission paid to Antonio Borda in connection with the Mortgage Bank of Bogota 7 per cent sinking fund gold bonds of 1947.

## DEPARTMENT OF CAUCA VALLEY

*Exhibit 2.*—Memorandum, with copies of letters and receipts attached thereto, with respect to the commissions paid to Phanor J. Eder in connection with the Department of Cauca Valley, Colombia, 7½ per cent gold bonds of 1946.

## DEPARTMENT OF CUNDINAMARCA

*Exhibit 3.*—Memorandum, with a copy of a letter attached thereto, with respect to the commission paid to Antonio Borda in connection with the Department of Cundinamarca, Colombia, external secured 6½ per cent sinking fund gold bonds of 1959.

## COSTA RICA

*Exhibit 4.*—Memorandum, with a copy of a letter attached thereto, with respect to the commission paid to F. J. Alvarado in connection with the Republic of Costa Rica external secured sinking fund 7 per cent gold bonds of 1951.

## PERU

## TOBACCO AND NATIONAL LOANS, FIRST AND SECOND SERIES

*Exhibit 5.*—Copy of the bond-purchase agreement, dated March 15, 1927, between Republica del Peru and J. & W. Seligman & Co. and F. J. Lisman & Co., in connection with the secured 7 per cent sinking fund gold bonds of 1959 (tobacco loan).

*Exhibit 6.*—Copy of the trust agreement dated as of March 1, 1927, between Republica del Peru and Central Union Trust Co. of New York, trustee, pursuant to which the secured 7 per cent sinking fund gold bonds, 1927, were issued.

*Exhibit 7.*—Copy of the bond-purchase agreement, dated December 19, 1927, between Republica del Peru and J. & W. Seligman & Co. and the National City Co. in connection with first series bonds of the Peruvian national loan.

*Exhibit 8.*—Copy of the Peruvian national loan fiscal agency and loan agreement, dated as of December 1, 1927, between Republica del Peru and J. & W. Seligman & Co. and the National City Bank of New York.

*Exhibit 9.*—English translation of agreement, dated December 29, 1927, between Republica del Peru and Caja de Depositos y Consignaciones, with intervention of J. & W. Seligman & Co. and the National City Bank of New York, fiscal agents, providing for collection by or deposit with Caja de Depositos y Consignaciones and application of revenues of the Republic pursuant to Law No. 5931.

*Exhibit 10.*—Bond-purchase agreement dated October 1, 1928, between Republica del Peru and J. & W. Seligman & Co. and the National City Co. in connection with second series bonds of the Peruvian national loan.

*Exhibit 11.*—Copy of agreement, dated October 1, 1928, supplemental to Peruvian national loan fiscal agency and loan agreement, between Republica del Peru and J. & W. Seligman & Co. and the National City Bank of New York.

*Exhibit 12.*—English translation of supplemental revenue collection agreement, dated October 22, 1928, between Republic of Peru and Caja de Depositos y Consignaciones, with intervention of J. & W. Seligman & Co. and the National City Bank of New York, fiscal agents.

*Exhibit 13.*—Memorandum, with copies of letters, memoranda, receipts, releases, and indemnifying agreement, all with respect to the commissions paid to Harold Bolster, and/or Harold Bolster & Co., and to Madge Kennedy Bolster, individually and as executrix of the estate of Harold Bolster, Juan Leguia, and Thomas V. Salt, in connection with the tobacco loan and Peruvian national loan, first and second series.

*Exhibit 14.*—Memorandum, with attached transcripts of accounts of Juan Leguia with J. & W. Seligman & Co.

## PROVINCE OF CALLAO, PERU

*Exhibit 15.*—Copy of bond-purchase contract, dated April 25, 1927, between Province of Callao, Peru, and Alvin H. Frank & Co.

*Exhibit 16.*—Copy of contract of issue of bonds, trust and fiscal agency agreement, dated April 25, 1927, between Republic of Peru, Province of Callao, and Alvin H. Frank & Co., and copy of acceptance of trusts and fiscal agency, dated April 25, 1927, by Central Union Trust Co. of New York, trustee, and J. & W. Seligman & Co., fiscal agent, respectively.

*Exhibit 17.*—Memorandum, with copies of letters, receipt, statement, and night letter, with respect to the commission paid to George A. Helfert, and fee for legal services paid to Peruvian counsel, a Doctor Gallagher, in connection with the loan to the Province of Callao.

## JUGOSLAVIA

*Exhibit 18.*—Memorandum, with copy of cable attached with respect to the commission paid to Marc Wilenkin and Nicholas Kagan, in connection with the State Mortgage Bank of Jugoslavia, 7 per cent secured sinking fund gold bonds of 1937.

## GENERAL

*Exhibit 19.*—Copy of a typical letter to the Department of State with respect to the proposed purchase of an issue of foreign bonds, the particular letter given being a letter from our counsel to the Department of State, dated April 4, 1927, with respect to the State Mortgage Bank of Jugoslavia \$12,000,000 secured 7 per cent sinking fund gold bonds, 1937.

20. On page 911 of the transcript of testimony, from line 17 through line 11 on page 912, the testimony, as I reread it, indicates a confusion in my mind as to the point upon which Senator Johnson was interrogating me, and I wish to substitute the following for my testimony therein recorded:

I understand that it has, for many years, been the custom in the several financial centers of the world, such as London, Paris, and Amsterdam, for the bankers who handle issues of foreign governments or corporations to pay commissions to intermediaries who bring to their attention such financing whenever, following the introductions by such intermediaries or as a result of their assistance in the negotiations, the bankers consummate an issue. I further understand that this custom also obtained in the New York market after the war, when numerous bond issues of foreign governments and corporations were being offered to the public here; and that it was quite usual for the banking houses who bought such loans from the borrowers and offered them to the public to pay a commission to such intermediaries. Whether or not such commissions were paid in connection with all such foreign bond issues, I can not, of course, say. However, my understanding of the custom prevailing at the time is that such commissions were paid more often than not.

21. In my testimony (p. 886, line 21 to p. 887, line 23), the chairman asked me whether we had often paid a commission as high as one-half of 1 per cent of the principal amount of a foreign bond issue, and I said that so far as I recalled one-half of 1 per cent was the highest commission we had paid. I would like to correct and amplify that testimony as follows:

I find on consulting our records that as a matter of fact we paid a commission just or nearly as high, namely, one-half of 1 per cent in the case of the bond issue for the State Mortgage Bank of Jugoslavia, the bond issue for the Province of Callao, and the bond issue for the Republic of Costa Rica; and that we paid a higher commission, namely, 1 per cent in the case of the Cauca Valley bond issues. I think it fair to say, however, that in general we endeavored to limit the commission to intermediaries to not exceeding 15 per cent of the net originating profits made by ourselves and our associates who purchased and offered the bond issues, which in the ordinary case resulted in a commission of less than one-half of 1 per cent of the principal amount. "Net originating profits" in this connection mean the profits made by the group which purchases an issue between the purchase price and the first step-up price, namely, the price at which the first additional group is formed to take over the liability from the original purchase group.

22. In the first nine lines on page 923, the implication might be drawn that some of the proceeds of the bond issue for the Province of Callao had been

applied to the construction of the new docks in Callao Harbor, which were constructed by the Frederick Snare Corporation. Such an implication would be an error, because, so far as we know, no proceeds of the Province of Callao loan were so applied. The sums applied to the construction of the Port of Callao docks, under the Snare contract, came from the proceeds of the Peruvian national loan, first and second series, and from the proceeds of a six months' bank credit to the Republic of Peru made by J. & W. Seligman & Co., the National City Bank, the Central Hanover Trust Co., Guaranty Trust Co., and F. J. Lisman & Co. in the spring of 1830.

A duplicate of this letter and of all of the enclosures are enclosed herewith for the use of Senator Johnson.

Sincerely yours,

HENRY C. BREGG.

EXHIBIT No. 1

JANUARY 16, 1932.

MEMORANDUM

MORTGAGE BANK OF BOGOTA 7 PER CENT SINKING FUND GOLD BONDS OF 1947

This business was brought to the attention of J. & W. Seligman & Co., by the Central Union Trust Co. of New York, to which the business was brought by Mr. A. Borda, a citizen of Colombia. The total amount of commission paid to Mr. Borda was \$3,000. As the arrangements with Mr. Borda were made by the Central Union Trust Co. of New York, all documentary evidence in connection therewith would be at the Trust Co.

Attached hereto are copies of the following:

(a) Letter dated March 19, 1928, from J. & W. Seligman & Co. to Central Union Trust Co. of New York, enclosing a check for \$3,000 in payment of the above commission.

(b) Form of release to be signed by Mr. Borda inclosed with above-mentioned letter.

MARCH 19, 1928.

CENTRAL UNION TRUST Co.,  
New York.

(Attention Mr. Whittlesey.)

DEAR SIR: We hand you herewith our check for \$3,000 to your order for credit to Señor Antonio Borda representing commission due him for services in connection with the purchase of Banco Hipotecario de Bogota \$3,000,000 20-year 7 per cent sinking fund gold bonds, issue of October, 1927.

You will recall that in your letter to Señor Borda under date of December 19, 1927, he was guaranteed a minimum commission of \$3,000 in the event that the commission originally agreed upon of 15 per cent of the net underwriting profit should prove to be less than that amount. The net underwriting profit was not great enough to bring to Señor Borda an increase over and above the minimum guarantee.

We attach hereto two copies of a release which we would thank you to have executed in duplicate returning one copy to us for your files.

Yours very truly,

J. & W. SELIGMAN & Co.

I hereby acknowledge receipt from Central Union Trust Co. of New York of the sum of \$3,000 as compensation for my services in connection with the issue and sale of \$3,000,000, principal amount, of Mortgage Bank of Bogota 20-year 7 per cent sinking fund gold bonds, issue of October, 1927.

In that connection I hereby release Central Union Trust Co. of New York and all persons, firms, and corporations associated with it in the creation, purchasing, or selling of said issue, from any and all claims whatsoever for compensation or otherwise in connection with the negotiation, creation, purchase, and sale of said issue, whether made by me or by any person, firm or corporation claiming through or under me.

## EXHIBIT No. 2

JANUARY 16, 1932.

## MEMORANDUM—DEPARTMENT OF CAUCA VALLEY, COLOMBIA, 7½ PER CENT GOLD BONDS OF 1946, FIRST ISSUE, \$2,500,000 AND SECOND ISSUE, \$1,500,000

This business was brought to J. & W. Seligman & Co. by P. J. Eder, a lawyer in New York. In testifying before the Finance Committee of the Senate (pp. 892 and 906 of the transcript) Mr. Henry C. Breck erroneously stated that Baker, Kellogg & Co. brought this business to J. & W. Seligman & Co. His testimony on this point should be amended accordingly.

Attached hereto are copies of the following:

- (a) Letter, dated February 18, 1926, from J. & W. Seligman & Co. to Mr. Eder.
- (b) Letter, dated February 19, 1926, from Mr. Eder to J. & W. Seligman & Co.
- (c) Receipt for \$27,000 principal amount of 7½ per cent Cauca Valley bonds, dated October 15, 1926, and signed by Mr. Eder.
- (d) Letter, dated August 22, 1927, from J. & W. Seligman & Co. to Mr. Eder.
- (e) Letter, dated August 22, 1927, from Mr. Eder to J. & W. Seligman & Co., acknowledging receipt of \$15,000.

From the foregoing correspondence, it will be noted that it was agreed that Mr. Eder should receive commission of 1 per cent (1 point) of the principal amount of the bonds issued in consideration of his having brought the business to J. & W. Seligman & Co. Total commissions paid to Mr. Eder amounted to \$27,000, principal amount, of 7½ per cent Cauca Valley bonds (which had a market value of approximately \$25,000, at the time of delivery), on the first issue, and \$15,000 in cash on the second issue. While the letter of February 18, 1926, stipulated that all commissions were to be paid in cash, the commission on the first issue was paid and accepted in bonds.

FEBRUARY 18, 1926.

P. J. EDER, Esq.,  
Messrs. HARDIN & HESS,  
New York.

(Re Department El Valle Del Cauca.)

DEAR SIR: We refer to your letter to us dated February 1, 1926, in the above matter.

As we stated to you in our reply, our understanding of your commissions was different from that expressed in your letter, as we have since discussed with you. This is merely to record our present understanding, namely, that you are to receive a commission of one point in cash on the first \$2,000,000, of bonds purchased and, if the option for the remaining \$2,000,000, is later exercised, a commission on such remainder of one point in cash.

Yours very truly,

J. & W. SELIGMAN & Co.  
HARDIN & HESS,  
New York, February 19, 1926.

EL VALLE DEL CAUCA

J. & W. SELIGMAN & Co.,  
New York.

GENTLEMEN: This is to acknowledge receipt of your letter dated February 18th, and to express my conformity therewith.

Yours very truly,

P. J. EDER.

Receipt acknowledged by the undersigned from J. & W. Seligman & Co. of \$27,000 principal amount of 7½ per cent 20-year secured gold bonds of department of Cauca Valley, due October 1, 1946, in full settlement of commissions due the undersigned and associates, in respect of the issue of \$2,500,000 principal amount, of such bonds this day delivered, pursuant to the letter of J. & W. Seligman & Co. to the undersigned, dated February 18, 1926, and his confirmation, dated February 19, 1926, or otherwise.

PHANOR J. EDER.

AUGUST 22, 1927.

PHANOR J. EDER, Esq.,  
New York.

DEAR SIR: We inclose herewith check to your order for \$15,000 in full and final settlement of all commissions due you in accordance with our letters dated February 18, 19, 1926, relating to issue of 7½ per cent secured sinking fund gold bonds of department of Cauca Valley, maturing 1946.

Please acknowledge receipt.

Very truly yours,

J. & W. SELIGMAN & Co.

HARDIN, HESS, EDER & FRESCHI,  
New York, August 22, 1927.

J. & W. SELIGMAN & Co.,  
New York City.

GENTLEMEN: I acknowledge receipt of your letter of August 22 inclosing cheque for \$15,000 in full and final settlement of all commissions due me in connection with the issue of 7½ per cent secured sinking fund gold bonds of department of Cauca Valley.

Please accept my thanks.

Very truly yours,

P. J. EDER.

EXHIBIT No. 3

MEMORANDUM—DEPARTMENT OF CUNDINAMARCA, COLOMBIA EXTERNAL SECURED 6½ PER CENT SINKING FUND GOLD BONDS OF 1959

JANUARY 16, 1932.

This business was brought to the attention of J. & W. Seligman & Co. by Central Union Trust Co. of New York, to which the business was brought by Mr. A. Borda, a citizen of Colombia. It was agreed that Mr. Borda's commission was to be 15 per cent of the net originating profits of the original group. As the arrangements with Mr. Borda were made by Central Union Trust Co. on behalf of the original group, all documentary evidence in connection therewith would be with the trust company.

Attached hereto is copy of letter dated October 5, 1928, from J. & W. Seligman & Co. and E. H. Rollins & Sons, managers for the original purchase group, to Central Union Trust Co. of New York, forwarding a check of \$33,981.64 in payment of Mr. Borda's commission.

OCTOBER 5, 1928.

CENTRAL UNION TRUST Co. OF NEW YORK,  
New York City.

(Attention of Mr. Whittlesey.)

DEAR SIR: We refer to our conversations held at the time of the initiation of the negotiations for the department of Cundinamarca 6½ per cent loan, in the course of which you informed us that a commission of 15 per cent of the net originating profits was payable by you to certain intermediaries, such commission being the only one payable by us in connection with the business. We now hand you check to your order for \$33,981.64 in payment of such commission.

The net originating profits before deducting the above commission amount to \$226,544.27. Charges against the profits included one of \$15,000 made to set up a contingent reserve for possible future expenses, such as the cost of preparing and authenticating the definitive bonds. In due course a statement of the reserve account will be rendered and a check for 15 per cent of the balance remaining therein, if any, will be mailed to you.

Yours very truly,

J. & W. SELIGMAN & Co.,  
E. H. ROLLINS & SONS,  
Managers.

By J. & W. SELIGMAN & Co.

## EXHIBIT No. 4

MEMORANDUM—REPUBLIC OF COSTA RICA EXTERNAL SECURED SINKING FUND 7 PER CENT GOLD BONDS OF 1951

JANUARY 16, 1932.

In testifying before the Finance Committee of the Senate (pp. 883, 889, and 891 of the transcript), Mr. Henry C. Breck stated that he was under the impression that F. J. Lisman & Co., who were members of the original group which offered the \$8,000,000 loan, had made arrangements for the payment of an intermediary commission to Mr. F. J. Alvarado, of Costa Rica, of about \$25,000. Upon later examination of the files it appears that this loan had no connection with the previous offer which had been made to the Republic of Costa Rica by J. & W. Seligman & Co. and F. J. Lisman & Co., but was brought to the attention of J. & W. Seligman & Co. by Central Union Trust Co. of New York, who negotiated the loan on behalf of the original group through a Mr. F. J. Alvarado, a citizen of Costa Rica. As the arrangements for the commission were made by Central Union Trust Co. of New York, all documentary evidence in connection therewith would be in their files. The amount paid to Mr. Alvarado pursuant to previous agreement was \$38,677.46, and this amount represented the commission and expenses of Mr. Alvarado. Mr. Breck's testimony should be corrected accordingly.

Attached hereto is copy of a letter dated March 21, 1927, from J. & W. Seligman & Co. as syndicate managers to Central Union Trust Co. of New York, inclosing the former's check for \$38,677.46.

MARCH 21, 1927.

CENTRAL UNION TRUST CO. OF NEW YORK.  
New York, N. Y.

DEAR SIR: We inclose herewith our check to your order for \$38,677.46 to pay the commission and expenses of Mr. Felipe J. Alvarado in connection with the purchase and sale of \$8,000,000 external secured sinking fund 7 per cent gold bonds, 1926, of the Republic of Costa Rica.

We understand that this payment is in full settlement of all claims for commissions, services, expenses or otherwise which Mr. Alvarado may have against you or ourselves or any of our associates in connection with the issue of these bonds. We suggest that when you make payment to Mr. Alvarado, you obtain a written statement from him substantially to that effect.

Yours very truly,

J. & W. SELIGMAN & Co.,  
Syndicate Managers.

## EXHIBIT No. 5

AGREEMENT BETWEEN REPUBLICA DEL PERU (REPUBLIC OF PERU) AND J. & W. SELIGMAN & Co. AND F. J. LISMAN & Co., MARCH 15, 1927—SECURED 7 PER CENT SINKING FUND GOLD BONDS

Agreement, dated March 15, 1927, between Republica del Peru (Republica of Peru) hereinafter called the Republic, acting by his excellency, the Hon. Manuel G. Masias, its minister of finance, thereunto duly authorized, and J. & W. Seligman & Co., copartnership, and F. J. Lisman & Co., a copartnership, both of the city and State of New York, United States of America, hereinafter collectively called the bankers.

The Republic represents that:

(a) The Republic, by law enacted February 22, 1904, has created and established estanco del tabaco (Peru) hereinafter called the monopoly, for the administration for account of the Republic of the national monopoly of the manufacture and sale of tobacco and its products, hereinafter called the tobacco monopoly, and under law No. ---, enacted March 14, 1927, will on or before the issue of the bonds of 1927, hereinafter mentioned, transfer to the Caja de Depósitos y Consignaciones, hereinafter called the Caja, a Peruvian corporation, the collection of all the gross revenues from the manufacture and sale of tobacco

and its products and from the taxes and duties on the manufacture and sale of tobacco and its products.

(b) The gross revenues of the Republic from the manufacture and sale of tobacco and its products and the taxes and duties on the manufacture and sale of tobacco and its products during the years 1921 to 1926, both inclusive, were as follows:

1921	-----	Lp.	914,368.9.46
1922	-----	"	904,744.2.12
1923	-----	"	905,221.2.46
1924	-----	"	990,325.5.60
1925	-----	"	1,048,529.2.22
1926	-----	"	1,173,814.9.00
			1,105,016.6.06

The gross revenues of the Republic at any time from the manufacture and sale of tobacco and its products, now or at any time hereafter authorized, and from the taxes and duties now or at any time hereafter imposed on the cultivation, manufacture and sale of tobacco and its products, are hereinafter collectively called the gross tobacco revenues.

(c) The gross tobacco revenues are free from all liens and charges whatsoever except (1) the existing lien or charge in favor of an internal issue of 8 per cent tobacco monopoly bonds of 1924, of the Republic, hereinafter called the 8 per cent bonds of 1924, of which an aggregate principal amount of not exceeding 385,000 Peruvian pounds are outstanding at the date of this agreement, (2) the existing lien or charge in favor of the now outstanding 21 promissory notes of the Republic dated December 27, 1926, aggregating \$420,000 payable to the order of the Foundation Co., said promissory notes being hereinafter called the building notes, (3) the existing lien and charge in favor of six promissory notes of Compañia Recaudadora de Impuestos aggregating \$228,265.20 outstanding and/or to be outstanding under an agreement dated August 20, 1926, between Compañia Recaudadora de Impuestos and American Machine & Foundry Co., covering the installation of certain machinery to be used in the manufacture of tobacco and its products in Peru, said promissory notes being hereinafter called the machinery notes, and (4) the lien or charge in favor of \$3,000,000 principal amount, four months' 6 per cent secured gold notes of the Republic due July 1, 1927, hereinafter called the secured gold notes, to be issued under an agreement between the parties hereto dated March 15, 1927. The proceeds from the issue of such notes will be used to retire the 8 per cent bonds of 1924, the building notes and the machinery notes.

(d) In order to provide funds for the payment of said \$3,000,000, principal amount, four months' 6 per cent secured gold notes and for the purchase of machinery for, and for the construction of plants for, the manufacture of cigars and cigarettes, and for the construction of railroads and irrigation and sewage systems, the Republic desires to create an external loan limited to the aggregate principal amount of £5,000,000 (pounds sterling), or the equivalent amount in United States of America dollars (\$24,332,500), at par of exchange, \$4.8665 for £1 (pound sterling), to consist of bonds to be issued from time to time in series, to be the direct obligation of the Republic and to be secured by a direct first lien and charge upon the gross tobacco revenues.

(e) The Republic desires presently to issue a first series of said bonds limited at \$15,000,000 (£3,082,297), principal amount, to be known as the secured 7 per cent sinking fund gold bonds, 1927, of the Republic.

Now, therefore, this agreement witnesseth that in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed, and do hereby agree, as follows:

#### ARTICLE I

1. The Republic will forthwith, in conformity with its constitution and laws, create an external loan, limited to the aggregate principal amount of £5,000,000 (pounds sterling), or the equivalent amount in the United States of America dollars (\$24,332,500), at par of exchange, \$4.8665 for £1 (pound sterling), to consist of bonds, hereinafter called the bonds, which may be issued in series as hereinafter provided. The first series of bonds to be issued presently shall be limited to \$15,000,000 United States gold dollars, principal amount (£3,082,297), and shall be known as the secured 7 per cent sinking fund gold bonds, 1927, of the Republic, hereinafter called the bonds of 1927.

The bonds shall be issued under a trust agreement (hereinafter called the trust agreement) in the usual American form, to be executed on behalf of the Republic by his excellency, the Hon. Hernán Velarde, its ambassador to the United States of America, or other representative thereunto duly authorized, to such bank or trust company having its principal office in the borough of Manhattan, in the city of New York, as the bankers may designate, as trustee (hereinafter called the trustee). The trust agreement shall be substantially in the form attached hereto as Exhibit A, with such changes as the bankers and the Republic may agree upon, and shall be printed in the English language and, if desired by the Republic, also in the Spanish language, but the English text shall govern. The trust agreement shall contain the provisions described in section 14 of this article, and all other provisions customarily contained in such agreements.

2. The Republic pledges its good faith and credit for the prompt payment of the principal of, and the premium and interest upon, the bonds as and when the same shall become due and payable and for the due and punctual performance of all the other covenants and agreements, in this agreement and in the trust agreement and in the bonds contained, to be performed or observed by it; and covenants that in case the revenues hereinafter pledged as security for the bonds shall prove insufficient to make any payments to be made as provided herein or in the bonds, or in the trust agreement, it will make up such deficiency out of its other revenues.

3. As security for the payment of the principal of, and interest upon, the bonds, the Republic agrees to specifically pledge, and create a direct first lien and charge upon, and hereby does pledge and create a direct first lien and charge upon, the gross tobacco revenues subject only to the liens or charges existing thereon in favor of the outstanding 8 per cent bonds of 1924, the building notes, the machinery notes and the secured gold notes; and the Republic hereby covenants that the lien and charge to be granted upon the gross tobacco revenues is, and until all the bonds are paid, shall be maintained as, a direct first lien and charge thereon, subject only to said prior liens or charges in favor of the outstanding 8 per cent bonds of 1924, the building notes, the machinery notes and the secured gold notes. The Republic covenants to pay from other revenues of the Republic all the administration and operating expenses of the monopoly, and all the expenses of collecting the gross tobacco revenues.

The Republic covenants that out of the proceeds of the secured gold notes it will retire or provide for the retirement of the 8 per cent bonds of 1924, the building notes and the machinery notes and thus before, or as soon as practicable after, the date of execution of the trust agreement, to free the gross tobacco revenues from the liens or charges of the 8 per cent bonds of 1924, the building notes, the machinery notes and the secured gold notes; and that all 8 per cent bonds of 1924 and all secured gold notes purchased or redeemed or paid shall be immediately cancelled and that no bond or note shall be issued in lieu thereof.

4. The Republic covenants that so long as any of the bonds are outstanding it will not reduce, abolish or in any manner impair, or permit the reduction, abolition, or impairment of, the gross tobacco revenues as existing at the date of this agreement, or abolish or impair the tobacco monopoly or in any other manner impair, or permit the impairment of, the security of the bonds.

5. The bonds of 1927 shall be in coupon form, payable to bearer, shall be dated March 1, 1927, shall mature September 1, 1959, shall bear interest from March 1, 1927, at the rate of 7 per cent per annum, and shall be issued in such denominations as the bankers may direct. The principal of, premium on, and interest on the bonds of 1927 shall be payable at the principal office of J. & W. Seligman & Co., the fiscal agents hereinafter appointed, in the borough of Manhattan, city and State of New York, in gold coin of the United States of America, of or equal to the standard of weight and fineness existing March 1, 1927. The principal of, premium on, and interest of the bonds of 1927 shall be paid in time of war as well as in time of peace and whether the holders be citizens or residents of a friendly or of a hostile state, and shall be paid without deduction or diminution for any taxes, assessments, charges, or duties of any nature, now or at any time hereafter levied or imposed by the Republic, or any State, province, municipality or other taxing authority thereof or therein.

6. The text of the definitive engraved bonds of 1927 and of the coupons appurtenant thereto shall be in the English language, substantially in the form

set forth in, and shall be executed in accordance with the provision of, the trust agreement. Pending the preparation of definitive engraved bonds of 1927, temporary typewritten, lithographed, or printed bonds of 1927 of a similar form, with such omissions, additions and variations as may be appropriate, of any denomination or denominations, with or without coupons, as the bankers may request, may be issued, and shall be exchangeable for definitive engraved bonds of 1927 when engraved and prepared and ready for delivery, at the office of the trustee in the city of New York all as more fully set forth in the trust agreement.

7. The bonds of 1927 shall be manually signed on behalf of the Republic by his excellency, the Hon. Hernán Velarde, its ambassador to the United States of America, or other representative thereunto duly authorized. The coupons appurtenant to each of the bonds of 1927 shall bear the facsimile signature of Manuel G. Masfias, the Minister of Finance of the Republic, or other representative thereunto duly authorized.

The bonds, both temporary and definitive, shall be authenticated by the certificate endorsed thereon of the trustee.

8. The bonds of 1927 shall be subject to redemption on any interest date, at the option of the Republic, in whole or in part, at 105 per cent of the principal amount thereof with accrued interest to the redemption date upon notice given by publication once a week for six successive weeks, the first publication to be not more than 90 days and not less than 60 days prior to the redemption date, in a daily newspaper of general circulation published in English in the borough of Manhattan, in the city of New York, all as more fully set forth in the trust agreement.

9. Until all the bonds of 1927 shall have been retired or redeemed, the Republic shall pay semiannually to the fiscal agents for the semiannual service of interest and amortization of the bonds of 1927, the sum of \$600,000 in gold coin of the United States of America of the standard aforesaid, which semi-annual sum will pay all interest charges and will retire the entire issue by maturity as shown by the table of amortization of the bonds of 1927, which is hereto annexed and marked Exhibit B. Such sum shall be paid in monthly installments as hereinafter in section 10 of this article 1 provided and as more fully set forth in the trust agreement.

10. The Republic shall pay, so long as any of the bonds of 1927 shall be outstanding, to the fiscal agents at their office in the city of New York, in gold coin of the United States of America of the standard aforesaid, the following amounts:

(a) The sum of \$100,000 in March, 1927, and monthly in each calendar month thereafter. Said sum is one-sixth of the amount necessary for each semiannual installment for the service of interest and amortization of the bonds of 1927 as hereinbefore in section 9 of this article 1 provided. Such monthly payments shall be made by paying weekly to a representative of the fiscal agents in Peru all the gross tobacco revenues collected by the Republic, by the Caja or otherwise for account of the Republic during the preceding week until the current monthly installment has been paid in full, all as more fully set forth in the trust agreement.

(b) Such sum on or before the first day of each calendar month, commencing with April, 1927, as may be necessary to make up any deficiency by which the gross tobacco revenues, paid over during the preceding calendar month for the service of the bonds of 1927 as in paragraph (a) above provided, shall not be sufficient for the full payments therein specified to be made.

11. The fiscal agents shall apportion and apply the moneys received by them pursuant to the provisions of section 10 of this article 1 as follows:

(a) The fiscal agents shall set aside out of such moneys received by them in each six months' period the amount necessary to pay the interest maturing on the next succeeding interest date on the bonds of 1927 then outstanding and shall apply the same to the payment of such interest on such next succeeding interest date.

(b) The fiscal agents shall set aside the balance of such moneys received by them in each six months' period as a sinking fund for the redemption of bonds of 1927 on behalf of the Republic on the next succeeding interest date and shall apply the same to such redemption on such interest date in the manner hereinafter in section 12 of this article 1 provided.

12. The sum set aside by the fiscal agents in each six months' period pursuant to paragraph (b) of section 11 of this article 1, shall be applied by the

fiscal agents to the redemption of bonds of 1927 on the next succeeding interest date at 105 per cent of their principal amount and accrued interest to the date of redemption, on notice given by publication, once a week for three successive weeks, the first publication to be not more than 40 days nor less than 30 days prior to the redemption date, in a daily newspaper of general circulation published in English in the Borough of Manhattan in the city of New York, all as more fully set forth in the trust agreement. All bonds of 1927 redeemed through the sinking fund and all coupons thereto appertaining shall be canceled and no bonds shall be issued in lieu thereof.

13. The Republic covenants that as long as any of the bonds shall be outstanding it will at all times maintain in the Borough of Manhattan, city of New York, a fiscal agency for the service of the bonds.

The Republic hereby appoints J. & W. Seligman & Co. to be the fiscal agents for the bonds, which appointment J. & W. Seligman & Co. hereby accept. The Republic will pay the fiscal agents as compensation for their services one-quarter of 1 per cent of all amounts paid to the fiscal agents for the payment of interest on the bonds, and one-quarter of 1 per cent of all amounts paid to the fiscal agents for the sinking fund or for the payment of the principal and premium of the bonds at maturity, or by call for redemption, or otherwise, all as more fully set forth in the trust agreement. The Republic will also reimburse the fiscal agents, on demand, for all expenses incurred in connection with the service of the bonds, all as more fully set forth in the trust agreement.

The fiscal agents shall not be required to segregate any moneys paid or deposited with them as herein or in the trust agreement provided.

14. The trust agreement shall provide that the Republic may, from time to time create and issue additional series of the bonds under the trust agreement subject to the following restrictions, all of which are more fully set forth in the trust agreement:

The bonds of each series shall be distinctly designated by the number of the year in which issued or by letter or in any other manner desired by the Republic and satisfactory to the trustee. All bonds of the same series shall be identical in form and substance except that they may be of different denominations and may be in coupon or registered form and except that as between bonds of different denominations and as between coupon bonds and registered bonds there may be such appropriate differences as may be determined by the Republic at or before the creation of the series and approved by the trustee. The several series may consist of different aggregate principal amounts and the maximum principal amount of bonds issuable of any series shall be limited and such limitation shall be expressed in the bonds of such series. The bonds of each series shall bear interest from such date at such rate and be payable on such dates and shall mature at such date not earlier than January 1, 1960, as at the time of the creation of such series shall be fixed by the Republic and stated in the bonds of such series. A cumulative sinking fund of not more than 1 per cent per annum shall be created for each series of the bonds to be applied to purchases of bonds at such prices or to the redemption of bonds at their principal amount or at such premium or in such other manner as the Republic may provide in the creation thereof. The principal and interest of each series of the bonds are to be payable in gold coin of the United States of America or, in British gold coin, or, at the option of the holders in either United States gold coin or British gold coin, as the Republic may provide in the creation thereof, at the rate of exchange as hereinbefore provided. The Republic may provide in the creation thereof that the bonds of any series may be redeemed at its option in whole or in part before maturity at their principal amount or at a premium plus accrued interest and such provisions shall be expressed in the bonds of said series. Except as aforesaid, the terms and provisions of all additional series of the bonds shall be substantially identical with the terms and provisions of the bonds of 1927. All bonds of any series shall be entitled to share in the security of the pledged revenues equally and ratably with the outstanding bonds of all other series.

No bonds of any series in addition to the \$15,000,000, principal amount, of the bonds of 1927 shall be issued by the Republic or authenticated by the trustee unless and until the gross tobacco revenues of the Republic, calculated on a gold basis, shall have averaged for the three years ending on the last day of the calendar month next preceding the date of issue of such additional bonds, and shall have equaled for the last of such three years, at least one and one-half

times the amount necessary to meet the maximum charges in any year for the service of interest and amortization of the bonds of all series outstanding at the time of such additional issue and on the additional bonds to be issued.

The trust agreement shall contain the usual provisions regarding the remedies of the trustee and the bondholders in case of default and, among other provisions, shall contain the following provisions, all of which are more fully set forth in the trust agreement:

If one or more of the following events, hereinafter called events of default, shall happen—

(a) Default in the prompt payment of the principal of or the premium on any of the bonds, when and as the same shall become due and payable, whether at maturity, by call for redemption, or otherwise as therein provided; or

(b) Default in the payment of any installment of interest on any of the bonds when and as the same shall become due and payable as therein expressed, and such default shall continue for a period of 30 days; or

(c) Default in any payment to the fiscal agents for the service of the bonds, as herein provided, as and when the same shall become due and payable and such default shall continue for a period of 30 days; or

(d) Default in the performance of any other covenant in the bonds or in the trust agreement contained, and such default shall continue for a period of 30 days after written or cabled notice to the Republic from the trustee specifying the nature of such default,

Then, and in any such event, during the continuance of such event of default the trustee may, and upon the written request of the holders of one-fourth in principal amount of the bonds then outstanding shall, by written or cabled notice to the Republic, declare all the bonds then outstanding (if not already due and payable) to be due and payable immediately at the sinking fund redemption price thereof, and upon any such declaration the principal and premium of all the bonds then outstanding shall become and be due and payable immediately, anything in the trust agreement or in the bonds to the contrary notwithstanding.

In case an event of default shall have happened and be continuing, the trustee shall have the right to appoint, and the Republic shall be obligated to consent to the appointment of, a special collections agency, which shall be a company, bank, firm, or responsible individual designated by the trustee, to take over the collection of the gross tobacco revenues all as more fully set forth in the trust agreement. In the event of the appointment of such special collections agency the Republic shall immediately transfer to such agency, and will cause the Caja and any other collecting agency for the collection of the gross tobacco revenues to transfer to such agency all facilities for the collection and control of the gross tobacco revenues. From the sums collected, the special collection agency shall, after deducting all its reasonable expenses, including an allowance for its own reasonable compensation, retain and remit to the trustee in New York the net proceeds thereof until the full amount then due on the bonds and coupons for principal, premium, and interest and otherwise under the trust agreement, including the expenses and compensation of the trustee, the fiscal agents, and their representatives, shall have been fully paid and discharged, and shall then retain and remit to the fiscal agents in New York from time to time as required the amounts required for the service of interest and amortization of the bonds and all other amounts payable under the trust agreement as aforesaid when and as the same shall become due and payable. The Republic shall pay from other revenues of the Republic all the administrative and operating expenses of the monouoly. Any balance of the collected revenues not required by the special collections agency for the purpose above specified shall be paid over to the Republic.

## ARTICLE II

1. Subject to all the terms and conditions of this agreement, the Republic agrees to sell and deliver to the bankers, and the bankers agree to purchase from the Republic and pay for, all said \$15,000,000, principal amount of the bonds of 1927 at the price of 90 per cent of the principal amount thereof and accrued interest to the date of delivery or to the date of the issue of interim certificates, whichever shall be earlier. Delivery of and payment for said bonds of 1927 shall be made at the office of J. and W. Seligman & Co. in the borough of Manhattan, city of New York; 15 days after the public offering in New York of such bonds of 1927, provided that by mutual agreement between the Republic

and the bankers the time for the delivery of and payment for said bonds of 1927 may be extended to such later date as shall be fixed by such agreement. Delivery of said bonds of 1927 shall be made in the form of one temporary bond of 1927 in the denomination of \$15,000,000, or in the form of temporary bonds of 1927 in the denomination of \$1,000 each, or in such other denominations as the bankers may request, against payment in any case exchangeable for definite bonds of 1927 when engraved and prepared. Payment for the bonds of 1927 shall be made by crediting the amount of the purchase price therefor (less an amount estimated by the bankers to be sufficient to cover the expenses agreed to be paid by the Republic as provided in section 9 of Article II hereof), with the fiscal agents for account of the Republic. The fiscal agents shall retain, out of the amount so credited to the account of the Republic, an amount equal to the charges for interest and amortization on the bonds of 1927 accrued on the bonds of 1927 from date thereof to the date of such deposit and shall apply such moneys to the service of the bonds of 1927 in accordance with the provisions of the trust agreement. The balance so credited to the Republic shall be paid out by the fiscal agents from time to time to or upon the order of the Republic, provided that \$3,060,000 thereof shall be held by the fiscal agents, until the fiscal agents have received evidence, satisfactory to them, that the 8 per cent bonds of 1924 and the secured gold notes have been paid and canceled. If the temporary bond or bonds of 1927 are not delivered prior to such date, 15 days after such public offering of the bonds of 1927, the bankers may issue or cause to be issued interim certificates, exchangeable for bonds of 1927, in temporary or definite form. Such interim certificates shall provide that if, for any reason, the Republic shall fail to deliver the temporary bonds of 1927, in accordance with the terms of this agreement, the holders of the interim certificates shall be entitled to receive a refund of the retail purchase price of the bonds of 1927 represented thereby with interest at the rate of 7 per cent per annum on the principal amount of bonds of 1927 represented thereby from the date of the issue of the interim certificates until payment of such refund: and in case of the issue of such interim certificates and the failure of the Republic to deliver the bonds of 1927, the Republic hereby agrees to pay to the bankers on demand the full amount of such interest. If the Republic shall deliver one temporary bond in the denomination of \$15,000,000 the bankers may issue, or cause to be issued, interim certificates representing such temporary bond of 1927, exchangeable for definite engraved bonds of 1927 when prepared and delivered.

2. As soon as practicable after the execution of this agreement the Republic shall deliver, or cause to be delivered, to the bankers, a prospectus letter or letters containing information concerning the financial condition of the Republic, its resources, debts, income and expenditures, financial administration, and concerning the monopoly and the Caja, and such other information, in such form, as the bankers may reasonably require, and as shall be satisfactory to the bankers' counsel, such letter or letters to be signed on behalf of the Republic by the minister of finance of the Republic or other duly authorized representative. The Republic agrees that since the bankers are relying on the statements contained in said prospectus letter or letters and on the representations set forth in this agreement in purchasing the bonds of 1927 and will make use of such prospectus letter or letters and representations in disposing of the bonds, it will indemnify the bankers and hold them harmless against any damages, claims, or liability which the bankers may incur by reason of any error or misstatement contained therein.

3. The Republic covenants that prior to the date for the delivery of and payment for the bonds of 1927 hereinabove mentioned it will take or cause to be taken whatever action or proceeding may, in the opinion of American or Peruvian counsel for the bankers, be required by the constitution or laws of the Republic, in order that this agreement, and the trust agreement and the bonds of 1927 and appurtenant coupons shall be valid and binding obligations of the Republic.

4. The Republic covenants that, prior to the date for the delivery of, and payment for the bonds of 1927, it will elect or appoint, or cause to be elected or appointed, such person as may be designated by the fiscal agents a member of the board of directors (consejeros) of the Caja and such person as may be designated by the fiscal agents an alternate member, to act in the place and stead of such member in case of such member's death, resignation, or inability to act for any reason, and the Republic covenants that at all times, so long as

any of the bonds of 1927 shall be outstanding, such persons as may be designated by the fiscal agents shall be a member and an alternate member of the board of directors, respectively, of the Caja and that such member, or, in case of such member's death, resignation, or inability to act, such alternate member, shall have the same rights and powers in so far as are concerned all matters relating to the manufacture and sale of tobacco and its products and the collection of all gross tobacco revenues from the manufacture and sale of tobacco and its products and from the taxes and duties on the manufacture and sale of tobacco and its products, and shall be entitled to the same compensation, as the other members of said board. The fiscal agents agree to designate to the Republic in writing or by cable within 30 days after the date of the execution of this agreement two persons to be such member and alternate member, respectively, of the board of directors. In case of the death, resignation, or inability to act for any reason of such member so designated, the alternate member shall act in such member's place and stead until the fiscal agents shall similarly designate the successor of such member and the Republic covenants to elect or appoint, or to cause to be elected or appointed, as soon as practicable thereafter, such successor a member of the board of directors. In case the successor so designated shall be the person previously designated as alternate member, or in case of the death, resignation, or inability to assume the duties of a member of the board of directors for any reason, of the alternate member, a successor of such alternate member shall be similarly designated by the fiscal agents and the Republic covenants to elect or appoint, or to cause to be elected or appointed, as soon as practicable thereafter, such successor an alternate member of the board of directors. In case the Republic shall with the consent of the fiscal agents, transfer the collection of the tobacco revenues or any part thereof to any other collection agency, the Republic will cause a member of the board or directors of such agency and an alternate member to be similarly elected or appointed.

If at any time, so long as any of the bonds of 1927 shall be outstanding, the Republic shall withdraw from the Caja the collection of the gross tobacco revenues, or the Caja or any successor, either by virtue of the operation of paragraph G, Article 11, of law of the Republic No. 4500, enacted March 8, 1922, (law creating the Banco de Reserva del Peru), or, for any other reason whatsoever, shall cease to collect the gross tobacco revenues, the fiscal agents shall have the right to appoint in agreement with the Republic a company now in existence or to be organized, firm or responsible individual to take over the entire collection of the gross tobacco revenues. In the event of the appointment of such company, firm, or individual, the Republic shall immediately transfer to such company, firm, or individual and will cause the Caja and any other collecting agency for the collecting of the gross tobacco revenues, to transfer to such company, firm, or individual all the facilities for the collection and control of the gross tobacco revenues. From the sums collected, said company, firm, or individual shall, after deducting all its or his reasonable expenses, including an allowance for its or his own reasonable compensation and the expenses and compensation of the trustee and the fiscal agents, remit to the fiscal agents in New York the amount of the service of interest and amortization of the bonds of 1927 as more fully set forth in sections 9 and 10 of Article 1 of this agreement, and remit the balance, if any, to the Republic. In the event that the fiscal agents shall appoint a company for the purposes above mentioned, the Republic shall have the right to name one of the members of the board of directors of such company and, in the event of his death, resignation, or inability to act for any reason, a successor.

5. The obligation of the bankers to purchase the bonds of 1927 hereunder is subject to the condition that on or before the date for the delivery of and payment for the bonds:

(a) All acts, events, and proceedings required by sections 3 and 4 of this Article II shall have been performed, shall have happened and shall have been taken and the Republic shall have delivered or caused to be delivered to the designated representative of the bankers in Peru duly authenticated copies of all laws and decrees or other instruments authorizing the execution of this agreement and the trust agreement and the creation, issue, and sale of the bonds of 1927 by the Republic;

(b) The bankers shall have received an opinion in form and substance satisfactory to them of Peruvian counsel designated by them, approving the pro-

ceedings of the Republic to authorize the execution of this agreement, the trust agreement, the creation, issue and sale of the bonds of 1927 in accordance with the terms hereof and thereof, and the sufficiency of all action taken for said purposes, and stating that this agreement, the trust agreement and the bonds of 1927 and the coupons appurtenant thereto in the hands of holders of whatever nationality or residence when executed and delivered in accordance herewith, will be the valid and binding obligations of the Republic:

(c) The bankers shall have received an opinion of their counsel in New York approving the form of the trust agreement and of the bonds of 1927 and the coupons appurtenant thereto; and

(d) The Republic shall have furnished to the Bankers the letter signed by its minister of finance or other duly authorized representative, setting forth such information as the bankers may request, as provided in section 2 of this Article II.

6. At any time prior to the date for the delivery of and payment for the bonds of 1927 the bankers shall have the absolute right to terminate their obligation under this agreement (a) if in their opinion the security markets in Europe or America are so affected by political, financial or economic conditions as to render the offering of the bonds of 1927 for sale inadvisable; or, (b) if there is any objection on the part of the Department of State of the United States to the offering of the bonds of 1927 in the American market. If this agreement shall be terminated in accordance with the right of withdrawal above provided, the Republic covenants to pay all expenses of the character specified in section 9 of this Article II to be paid by the Republic incurred to the date of such termination.

7. If the Republic shall fail or be unable to make delivery of the bonds within the time and under the conditions specified in this agreement—

(a) the obligation of the bankers hereunder to take and pay for the bonds of 1927 may, at their option, be terminated by written or cabled notice to the Republic, and thereupon, the obligation of the bankers to take and pay for the bonds of 1927 and of the Republic to deliver the same under the terms of this agreement shall cease and terminate; and

(b) the Republic shall forthwith, upon receipt of such notice of termination, pay to the bankers the sum of \$50,000 to reimburse the bankers for expenses incurred in connection with the matters covered in this agreement, and as liquidated damages.

8. The Republic will, at the request of the bankers, make application to list upon the New York Stock Exchange all the bonds of 1927 purchased by the bankers and use its best efforts to supply all information necessary for that purpose.

9. The Republic will pay the cost of printing this agreement and the trust agreement, of printing or engraving, executing and authenticating the temporary and definitive bonds of 1927 and interim certificates, the expense (if any) of exchanging the interim certificates for the temporary or definitive bonds of 1927, of exchanging the temporary bonds of 1927 for the definitive bonds of 1927 and the expense of listing the bonds on the New York Stock Exchange. The Republic will also pay the expenses and compensation of the trustee, of the fiscal agents, of the representative of the fiscal agents in Peru, and of the special collections agency, as set forth in the trust agreement. The Republic will also pay all stamp taxes and other duties and taxes, if any, to which under the laws of the Republic or of any political subdivision or authority thereof or therein this agreement or the trust agreement, or the bonds of 1927, temporary or definitive, may be subject.

The Republic will also reimburse the bankers for the cable expenses and for the fees and disbursements of counsel for the bankers in Peru.

10. The bankers, in their sole discretion, may determine when the bonds of 1927 shall be offered to the public and may choose and have in the purchase of the bonds of 1927 and in any offering to the public such associates as they may deem fit.

11. The Republic agrees that it will not issue or offer, in the United States of America, any bonds or other obligations, or any bonds or other obligations guaranteed by it, within the period of six months after the date of delivery of the bonds of 1927 hereunder, without the written consent of the bankers.

In consideration of the purchase of the bonds of 1927 hereunder and of the services rendered and to be rendered by the bankers pursuant to this agreement,

the Republic hereby agrees that in case the Republic shall at any time or from time to time desire to sell any bonds of other series to be issued under the trust agreement, it will first negotiate in regard thereto with the bankers, and the Republic agrees that, if it wishes to issue any additional bonds of other series, it will notify the bankers from time to time of the terms of such issue and the price thereof and shall give the bankers an option for 60 days to purchase such bonds on such terms. If the bankers, or either of them, do not elect to exercise such option within such 60-day period, the Republic may within 90 days thereafter sell such bonds to any other banking institution upon the same conditions or conditions more favorable to the Republic. In the event that the Republic does not sell such bonds to any other banking institution within such 90-day period, it shall prior to any sale of such bonds, again offer such bonds to the bankers as above set forth.

#### ARTICLE III

Any notice, request, or instruction, required or permitted to be given hereunder by one party to the other, shall be deemed sufficient if given in English in writing or by cable confirmed in writing, as follows:

(a) If from the bankers or fiscal agents to the Republic, over the signatures of the bankers or fiscal agents addressed to the minister of finance of the Republic at Lima, Peru.

(b) If from the Republic to the bankers or fiscal agents, over the signature of the minister of finance of the Republic, delivered to the bankers of the fiscal agents, as the case may be, in care of J. & W. Seligman & Co., New York, N. Y.

#### ARTICLE IV

Any reference in this agreement to the bankers shall be deemed to mean and include any successor corporation, joint stock association or partnership continuing the respective businesses of J. & W. Seligman & Co. and F. J. Lisman & Co.; any reference in this agreement to the fiscal agents shall be deemed to mean and include any successor corporation, joint stock association or partnership, continuing the business of J. & W. Seligman & Co.; and any reference in this agreement to the Republic shall be deemed to mean and include any successor government which may at any time during the life of this agreement govern the territory now embraced within the territorial limits of the Republic.

#### ARTICLE V

This agreement may be executed in both the English language and the Spanish language, but the English text thereof shall govern; may be executed in one (1) or more counterparts each of which shall be deemed to be an original; and shall be interpreted and construed in accordance with the Laws of the State of New York, United States of America, as though it had been made and were to be performed wholly within the territorial limits of said State.

In witness whereof, Republic del Peru (Republic of Peru) has caused this agreement to be executed on its behalf in three counterparts, by his excellency the Hon. Manuel G. Masias, its minister of finance, thereunto duly authorized, and J. & W. Seligman & Co. and F. J. Lisman & Co. have respectively caused this agreement to be signed in a like number of counterparts, on behalf of each of them respectively, all as of the day and year first above written.

REPUBLIC DEL PERU,  
By M. G. MASIAS, [SEAL]  
J. & W. SELIGMAN & Co.,  
By SAMUEL A. MAGINNIS,  
*Attorney in fact.*  
F. J. LISMAN & Co.,  
By MAURICE M. MANASSE,  
*A partner.*

SALE OF FOREIGN BONDS OR SECURITIES

1375

EXHIBIT B.—Table of amortization

	Semi-annual payment	Interest payment	Applicable to sinking fund	Principal amount of bonds to be retired	Bonds outstanding
Sept. 1, 1927	\$600,000	\$525,000	\$75,000	\$71,000	\$14,929,000
Mar. 1, 1928	600,000	522,515	77,485	74,000	14,855,000
Sept. 1, 1928	600,000	519,925	80,076	76,000	14,779,000
Mar. 1, 1929	600,000	517,265	82,735	79,000	14,700,000
Sept. 1, 1929	600,000	514,500	85,500	81,500	14,618,500
Mar. 1, 1930	600,000	511,648	88,352	84,000	14,534,500
Sept. 1, 1930	600,000	508,708	91,292	87,000	14,447,500
Mar. 1, 1931	600,000	505,663	94,337	90,000	14,357,500
Sept. 1, 1931	600,000	502,513	97,487	92,500	14,265,000
Mar. 1, 1932	600,000	499,275	100,725	96,000	14,169,500
Sept. 1, 1932	600,000	495,915	104,085	99,500	14,069,500
Mar. 1, 1933	600,000	492,433	107,567	102,000	13,967,500
Sept. 1, 1933	600,000	488,863	111,137	104,000	13,861,500
Mar. 1, 1934	600,000	485,153	114,847	109,500	13,752,000
Sept. 1, 1934	600,000	481,320	118,680	113,000	13,629,000
Mar. 1, 1935	600,000	477,365	122,635	117,000	13,522,000
Sept. 1, 1935	600,000	473,270	126,730	120,500	13,401,500
Mar. 1, 1936	600,000	469,053	130,947	124,500	13,277,000
Sept. 1, 1936	600,000	464,695	135,305	129,000	13,148,000
Mar. 1, 1937	600,000	460,180	139,820	133,000	13,015,000
Sept. 1, 1937	600,000	455,525	144,475	138,000	12,877,000
Mar. 1, 1938	600,000	450,695	149,305	142,000	12,735,000
Sept. 1, 1938	600,000	445,725	154,275	147,000	12,588,000
Mar. 1, 1939	600,000	440,580	159,420	152,000	12,436,000
Sept. 1, 1939	600,000	435,260	164,760	156,500	12,279,500
Mar. 1, 1940	600,000	429,783	170,217	162,500	12,117,000
Sept. 1, 1940	600,000	424,095	176,905	167,500	11,949,500
Mar. 1, 1941	600,000	418,233	181,767	173,000	11,776,500
Sept. 1, 1941	600,000	412,178	187,822	179,000	11,597,500
Mar. 1, 1942	600,000	405,913	194,087	184,500	11,413,000
Sept. 1, 1942	600,000	399,455	200,545	191,000	11,222,000
Mar. 1, 1943	600,000	392,770	207,230	197,000	11,024,500
Sept. 1, 1943	600,000	385,858	214,142	204,000	10,820,500
Mar. 1, 1944	600,000	378,718	212,282	210,000	10,610,000
Sept. 1, 1944	600,000	371,350	228,650	218,000	10,392,000
Mar. 1, 1945	600,000	363,720	236,280	225,000	10,167,000
Sept. 1, 1945	600,000	355,845	244,155	232,500	9,934,500
Mar. 1, 1946	600,000	347,708	252,292	240,500	9,694,000
Sept. 1, 1946	600,000	339,290	260,710	248,000	9,446,000
Mar. 1, 1947	600,000	330,610	269,390	256,500	9,189,500
Sept. 1, 1947	600,000	321,633	278,367	265,000	8,924,500
Mar. 1, 1948	600,000	312,358	287,642	274,000	8,650,500
Sept. 1, 1948	600,000	302,768	297,232	283,500	8,367,000
Mar. 1, 1949	600,000	292,845	307,155	292,500	8,074,500
Sept. 1, 1949	600,000	282,608	317,392	302,000	7,772,500
Mar. 1, 1950	600,000	272,038	327,962	312,500	7,460,000
Sept. 1, 1950	600,000	261,100	338,900	322,500	7,137,500
Mar. 1, 1951	600,000	249,813	350,187	333,500	6,804,000
Sept. 1, 1951	600,000	238,140	361,860	345,000	6,459,000
Mar. 1, 1952	600,000	226,065	373,935	358,000	6,103,000
Sept. 1, 1952	600,000	213,605	386,395	368,000	5,735,000
Mar. 1, 1953	600,000	200,725	399,275	380,000	5,355,000
Sept. 1, 1953	600,000	187,425	412,575	393,000	4,962,000
Mar. 1, 1954	600,000	173,670	426,330	406,000	4,556,000
Sept. 1, 1954	600,000	159,400	440,540	419,500	4,136,500
Mar. 1, 1955	600,000	144,778	455,222	434,000	3,702,500
Sept. 1, 1955	600,000	129,588	470,412	448,000	3,254,500
Mar. 1, 1956	600,000	113,908	486,092	462,500	2,792,000
Sept. 1, 1956	600,000	97,720	502,250	478,500	2,313,000
Mar. 1, 1957	600,000	80,973	519,027	494,500	1,819,000
Sept. 1, 1957	600,000	63,665	536,335	510,500	1,308,500
Mar. 1, 1958	600,000	45,798	554,202	528,000	780,500
Sept. 1, 1958	600,000	27,318	572,592	545,500	235,000
Mar. 1, 1959	600,000	8,225	591,776	235,000	-----

EXHIBIT No. 6

TRUST AGREEMENT BETWEEN REPUBLICA DEL PERU (REPUBLIC OF PERU) AND CENTRAL UNION TRUST CO. OF NEW YORK, TRUSTEE, DATED AS OF MARCH 1, 1927

Trust Agreement, dated as of March 1, 1927, between Republica del Peru (Republic of Peru), hereinafter called the Republic, acting by his excellency the Hon. Herman Velarde, ambassador of the Republic of Peru to the United

States of America, thereunto duly empowered, party of the first part, and Central Union Trust Co. of New York, a corporation duly organized and existing under the laws of the State of New York, United States of America, as trustee, hereinafter called the trustee, party of the second part.

Whereas in order to provide funds for the development of the business of the national monopoly of the manufacture and sale of tobacco and its products in Peru (hereinafter called the monopoly), the Republic has heretofore made an internal issue of its bonds known as its 8 per cent tobacco monopoly bonds of 1924 (hereinafter called the 8 per cent bonds of 1924) of which an aggregate principal amount of not exceeding £P385,000 (Peruvian pounds) are outstanding at the date of this trust agreement; and

Whereas in order to provide for the retirement of the 8 per cent bonds of 1924, and to provide funds for the purchase of machinery and the construction of plants for the manufacture of cigars and cigarettes, for the construction of railroads and irrigation and sewage systems and for other lawful purposes, the Republic by Law No. 5654, enacted by the Congress of the Republic February 4, 1927, as amended by Law No. 5743, enacted by the Congress of the Republic March 12, 1927, has authorized the creation of an external loan limited to the aggregate principal amount of £5,000,000 (English pounds sterling), or \$24,332,500, the equivalent amount in United States dollars at par of exchange, to consist of bonds, hereinafter called the bonds, to be issued from time to time in series, to be the direct obligations of the Republic and to be secured by a direct first lien and charge upon the gross revenues of the Republic from the monopoly; and

Whereas the Republic by such Laws Nos. 5654 and 5743 has also authorized the creation of a short-term loan, to be retired out of the proceeds of the sale of the first series of the bonds, and pursuant to such authority, the Republic has issued its notes known as its four months 6 per cent secured gold notes, dated March 1, 1927, and maturing July 1, 1927 (hereinafter called the secured gold notes); and

Whereas the Republic has, by virtue of Law No. 5746, enacted by the Congress of the Republic March 14, 1927, transferred to the Caja de Depositos y Consignaciones, hereinafter called the Caja, a corporation duly organized and existing under the laws of the Republic, the collection of the gross revenues of the Republic from the monopoly; and

Whereas in order to provide for the retirement of the secured gold notes and to provide other funds as aforesaid, the Republic desires presently to issue a first series of the bonds to be limited to \$15,000,000, principal amount, to be known as the secured 7 per cent sinking fund gold bonds, 1927, of the Republic, hereinafter called the bonds of 1927, and has under and pursuant to the provisions of said Laws Nos. 5654 and 5743 and other applicable provisions of law duly determined to establish the terms and conditions on which the bonds may be issued by the execution and delivery of this trust agreement; and

Whereas the execution of this trust agreement and the creation and issue of the \$15,000,000, principal amount, of the bonds of 1927 have been duly and validly authorized by the Republic; and

Whereas the text of the bonds of 1927 and of the coupons for interest to be annexed thereto, and of the trustee's certificate of authentication to be indorsed thereon, are to be substantially as follows, with appropriate insertions, omissions, and variations:

[Form of definitive bond]

REPUBLICA DEL PERU (REPUBLIC OF PERU) SECURED 7 PER CENT SINKING FUND GOLD BOND, 1927

Dated March 1, 1927. Due September 1, 1959.

Republica del Peru (Republic of Peru), hereinafter called the Republic, for value received, promises to pay to the bearer of this bond on September 1, 1959, the sum of \_\_\_\_\_ dollars, and to pay interest thereon from March 1, 1927, until the principal of this bond shall be paid in full, at the rate of seven per cent (7 per cent) per annum, semiannually on March 1 and September 1 in each year, but, until the maturity of this bond, only upon presentation and surrender of the coupons hereto annexed as they severally mature. The principal of and interest on this bond and the premium payable upon the redemption hereof as hereinafter provided shall be paid in the borough of Manhattan, in the city and State of New York, at the office of J. & W. Selig-

man & Co., fiscal agents, or their successors, in gold coin of the United States of America of or equal to the standard of weight and fineness existing on March 1, 1927, and shall be paid in every case free from and without deduction or diminution for any taxes, assessments, charges, or duties of any nature now or at any time hereafter levied or imposed by the Republic, or any State, Province, municipality, or other taxing authority thereof or therein, and shall be paid in time of war as well as in time of peace and whether the holder be a citizen or a resident of a friendly or of a hostile state.

This bond is one of the bonds of series designated secured 7 per cent sinking fund gold bonds, 1927, herein called bonds of 1927, limited to \$15,000,000, principal amount, at any one time outstanding duly authorized by Law No. 5654, enacted by the Congress of the Republic February 4, 1927, as amended by Law No. 5743, enacted by the Congress of the Republic March 12, 1927, being the first series of an external loan of the Republic consisting of bonds limited to the principal amount of £5,000,000 (pounds sterling) or \$24,332,500, at any one time outstanding. All the bonds of said loan, herein called the bonds, are issued or to be issued under and secured by a trust agreement, herein called the trust agreement, made by the Republic and Central Union Trust Co. of New York, as trustee, dated as of March 1, 1927, and are equally and ratably secured by a direct first lien and charge upon the gross revenues of the Republic from the manufacture and sale of tobacco and its products and from any taxes and duties now or at any time hereafter imposed on the cultivation, manufacture, and sale of tobacco and its products, subject and as set forth in the trust agreement. The Republic may, from time to time, in accordance with the provisions of the trust agreement, issue additional bonds under the trust agreement, but no bonds of any series in addition to the bonds of 1927 shall be issued by the Republic under the trust agreement unless and until the pledged revenues, calculated on a gold basis, shall have averaged for the three years ending on the last day of the calendar month next preceding the date of issue of such additional bonds, and shall have equaled for the last of such years, at least one and one-half ( $1\frac{1}{2}$ ) times the maximum amount necessary in any year to meet all charges for the service of interest on and amortization of the bonds of all series outstanding at the time of such additional issue and on the additional bonds to be issued. For a description of the nature and extent of the security for the bonds, the rights of the holders of the bonds with respect thereto, and the terms and conditions upon which the bonds are and may be issued, received, and held, reference is hereby made to the trust agreement, to all the provisions of which the holder hereof assents by the acceptance hereof.

The bonds of 1927 are subject to redemption, at the option of the Republic, in whole or in part, on September 1, 1927, and on any interest payment date thereafter at 105 per cent (105 per cent) of their principal amount plus accrued interest to the date of redemption, upon notice given by publication once a week for six successive weeks, the first publication to be not more than 90 and not less than 60 days prior to the redemption date, in a daily newspaper, printed in English, of general circulation in the borough of Manhattan, in the city and State of New York, all as more fully set forth in the trust agreement.

The bonds of 1927 are entitled to the benefit of a cumulative sinking fund calculated to retire all the bonds of 1927 by maturity, to be applied on each semiannual interest payment date to the redemption of bonds at 105 per cent (105 per cent) of their principal amount and accrued interest to the date of redemption, upon notice given by publication once a week for three successive weeks, the first publication to be not more than 45 days and not less than 30 days prior to the redemption date, in a daily newspaper, printed in English, of general circulation in the borough of Manhattan, in the city of New York, all as more fully set forth in the trust agreement.

The Republic hereby certifies that all acts, things and conditions prescribed by the constitution and laws of the Republic which are necessary to make this bond a valid and binding obligation of the Republic in accordance with its terms have been done and have happened.

The Republic pledges its good faith and credit for the prompt payment of the principal of, and the premium and interest on, this bond as and when the same shall become due and payable, and for the due and punctual performance of all the other covenants and agreements contained in this bond and in the trust agreement to be performed or observed by it.

The Republic covenants that it will not reduce, abolish, or in any manner impair, or permit the reduction, abolition or impairment of, the pledged

revenues, or in any other manner impair, or permit the impairment of, the security of this bond.

In case an event of default as defined in the trust agreement shall happen, the trustee shall have the right to declare the principal of all the bonds then outstanding (if not already due and payable) to be immediately due and payable and to appoint a special collections agency with the sole right to administer the collection of all the pledged revenues, all as more fully set forth in the trust agreement.

The Republic recognizes that the trustee, or its successor or successors, acting as the representative of the holders of the bonds issued under the trust agreement, may represent said holders and may institute and carry on for them in its own name all actions and proceedings, whatever be the grounds thereof, without being required to produce any of the bonds in any court or elsewhere or to prove its agency for, or authority from, said holders. These provisions are of the essence hereof and of the trust agreement and any instruments supplemental thereto, and the holder of this bond, by acceptance hereof, irrevocably confers upon the trustee the authority aforesaid.

As provided in the trust agreement, bonds of 1927 of the denominations of \$1,000 and \$500, at any time outstanding, when surrendered with all unmatured coupons attached, and upon the payment of charges provided for in the trust agreement, may be exchanged for an equal aggregate principal amount of bonds of 1927 of the other denomination, of numbers not contemporaneously outstanding, with all unmatured coupons attached.

This bond and the coupons appertaining hereto shall pass by delivery.

This bond shall not become valid or obligatory for any purpose until it shall be authenticated by the certificate of the trustee hereon indorsed.

In witness whereof Republica del Peru (Republic of Peru) has caused this bond to be engraved with the facsimile signature of the Minister of Finance of the Republic, and to be manually signed by his excellency, the Hon. Hernan Velarde, the Ambassador of the Republic to the United States of America, or other representative of the Republic thereunto duly empowered and the facsimile seal of the Republic to be engraved hereon, and the coupons for said interest bearing the facsimile signature of the Minister of Finance of the Republic to be annexed hereto.

Dated, as of March 1, 1927, New York, United States of America.

REPUBLICA DEL PERU,

[Form of trustee's certificate]

This is to certify that this bond is one of the secured 7 per cent sinking fund gold bonds, 1927, described in the within-mentioned trust agreement.

CENTRAL UNION TRUST CO. OF NEW YORK,

Trustee.

By \_\_\_\_\_, Authorized Officer.

[Form of coupon]

On \_\_\_\_\_, 19—, unless the bond hereinafter mentioned shall have been called for previous redemption and the moneys to effect such redemption duly provided, Republica del Peru (Republic of Peru) will pay to bearer the sum of \_\_\_\_\_ dollars, at the office of J. & W. Seligman & Co., fiscal agents, or their successors, in the Borough of Manhattan, in the city and State of New York, in gold coin of the United States of America, of or equal to the standard of weight and fineness existing on March 1, 1927, free from and without deduction or diminution for any taxes, assessments, charges, or duties of any nature now or at any time hereafter levied or imposed by Republica del Peru or any State, Province, municipality, or other taxing authority thereof or therein, in time of war as well as in time of peace, and whether the holder be a citizen or a resident of a friendly or of a hostile State, being six months' interest then due on its secured 7 per cent sinking fund gold bond, 1927, No. \_\_\_\_\_.

REPUBLICA DEL PERU.

Whereas all acts, conditions, and things required by the constitution and laws of the Republic necessary to make this trust agreement a valid and binding agreement for the security of the bonds and to make the bonds of 1927 the valid and binding obligations of the Republic, have been done and performed and have happened;

Now, therefore, this agreement witnesseth that in consideration of the premises and in consideration of the acceptance of the bonds by the holders thereof, the Republic has covenanted and agreed and does hereby covenant and agree with the trustee for the equal and proportionate benefit of all present and future holders of the bonds at any time issued and outstanding under this trust agreement, as follows:

#### ARTICLE 1.—SECURITY

**SECTION 1.** The bonds shall constitute direct liabilities and obligations of the Republic and the Republic hereby pledges its good faith and credit for the prompt payment of the principal of, and the premium and interest on, the bonds as and when the same shall become due and payable, and for the due and punctual performance of all the covenants and agreements in this trust agreement and in the bonds contained to be performed or observed by it; and covenants that in case the revenues pledged as security for the bonds shall prove insufficient to make any payments to be made as provided herein or in the bonds it will make up such deficiency out of its other revenues.

**SEC. 2.** As security for the payment of the principal of, premium and interest on, and sinking fund for, the bonds and for the payment of the expenses for the service of the bonds and of all other amounts which may become due and payable under this trust agreement, the Republic hereby specifically pledges, and creates a direct first lien and charge on, the gross revenues of the Republic from the manufacture and sale of tobacco and its products and from any taxes and duties now or at any time hereafter imposed on the cultivation, manufacture, and sale of tobacco and its products, hereinafter collectively sometimes called the pledged revenues, subject only to the lien or charge of (a) the 8 per cent bonds of 1924, and (b) the secured gold notes.

The Republic covenants that, out of the proceeds of the sale of the secured gold notes, it has provided for, and will effect, the payment or purchase of the 8 per cent bonds of 1924, and that, at or prior to the issue of any bonds of hereunder, it will pay or purchase all outstanding secured gold notes, or will deposit with the fiscal agents an amount equal to the principal amount of all such notes to be withdrawn only upon the payment or purchase thereof. The Republic further covenants that all 8 per cent bonds of 1924 and all secured gold notes so paid or purchased will be canceled as soon as practicable after the execution of this trust agreement, and shall not be renegotiated nor reissued, and that no bonds or notes of said issues respectively shall be issued in lieu of any thereof.

The Republic covenants to pay all the administration and operating expenses of the monopoly and all the expenses of collecting the pledged revenues out of other revenues of the Republic.

**SEC. 3.** So long as any of the bonds are outstanding the Republic will furnish to the trustee from time to time at the request of the trustee a report or statement signed by its Minister of Finance or other responsible official, showing in reasonable detail the gross receipts of the Republic from the pledged revenues and the expenditures in connection therewith during the period specified in such request.

#### ARTICLE 2.—AMOUNT, FORM, AND EXECUTION OF BONDS

**SECTION 1.** From time to time and at any time after the execution of this trust agreement the Republic may execute and deliver bonds of 1927 to the aggregate principal amount of \$15,000,000 to the trustee, who shall thereupon authenticate and deliver the same to or upon the order of the Republic. The aggregate principal amount of bonds of 1927 to be issued under this trust agreement shall be limited, except as provided in section 7 of this article 2, to \$15,000,000, principal amount. From time to time the Republic may issue additional bonds of other series under this trust agreement, but only as provided in section 5 of this article 2.

**SEC. 2.** The bonds of 1927, the coupons appurtenant thereto and the trustee's certificate of authentication indorsed on such bonds shall be substantially in the form hereinbefore set forth; and such provisions and legends may be indorsed on, or placed upon, the face or back of the bonds of 1927 as may be necessary or proper to conform to the rules or requirements of any stock exchange or committee thereof and as may be approved by the trustee. The bonds shall be in coupon form, payable to bearer; shall be dated March 1,

1927; shall mature on September 1, 1959; shall bear interest from March 1, 1927, at the rate of 7 per cent per annum, payable semiannually on March 1 and September 1 in each year; shall be issued in the denominations of \$1,000 and \$500; and shall be payable as to principal, premium, and interest in the Borough of Manhattan, in the city and State of New York, at the office of J. and W. Seligman & Co., fiscal agents, or their successors, in gold coin of the United States of America of or equal to the standard of weight and fineness existing on March 1, 1927, in every case, free from and without deduction or diminution for any taxes, assessments, charges, or duties of any nature now or at any time hereafter levied or imposed by the Republic or any State, Province, municipality, or other taxing authority thereof or therein, and shall be payable in time of war as well as in time of peace and whether the holders of the bonds of 1927 be citizens or residents of a friendly or of a hostile State. The text of the bonds of 1927 and the coupons shall be in the English language.

Sec. 3. All bonds of 1927 to be issued under this trust agreement shall bear the facsimile signature of the present, or any future, Minister of Finance of the Republic and/or shall be manually signed on behalf of the Republic by its ambassador to the United States of America at Washington or other representative or representatives of the Republic thereunto duly authorized. The coupons to be annexed to the bonds of 1927 shall be authenticated by the engraved facsimile signature of the present, or any future, Minister of Finance of the Republic. Both the bonds of 1927 and the coupons shall be otherwise executed and shall be in such form as to comply with the listing requirements of the New York Stock Exchange.

The Republic may adopt and use the engraved facsimile signature of any person who shall have been such minister notwithstanding the fact that he may have ceased to be such minister at the time when such bonds of 1927 shall be actually authenticated, delivered, and issued. In case any official or representative who shall have signed any of the bonds of 1927 shall cease to be such official or representative of the Republic before the bonds of 1927 so signed shall have been actually authenticated and delivered by the trustee, such bonds of 1927, upon request of the Republic, may nevertheless be authenticated and delivered as though the person who signed such bonds of 1927 had not ceased to be such official or representative of the Republic; and any bond of 1927 may be signed on behalf of the Republic by such person as at the actual date of the execution thereof shall be the proper official or representative of the Republic, although at the date of the bonds of 1927, such person shall not have been such official or representative of the Republic.

Only such bonds of 1927 as shall have indorsed thereon a certificate of authentication substantially in the form hereinabove set forth and executed by the trustee, and only the coupons appurtenant to such bonds of 1927, shall be or become valid or obligatory for any purpose or be secured by, or be entitled to the benefit of, this trust agreement; and such certificate executed by the trustee shall be conclusive and the only evidence that the bond of 1927 so authenticated and the coupons appurtenant thereto have been duly issued hereunder and that the holder thereof is entitled to the benefits of this trust agreement.

Before authenticating and delivering any bond of 1927, all coupons appurtenant thereto then matured shall be detached and canceled by the trustee and delivered to a representative designated by the Republic for that purpose in the city of New York, or sent by registered mail to the embassy of the Republic in Washington, at the risk and expense of the Republic.

Sec. 4. Bonds of 1927, in definitive form, of the denominations of \$1,000 or \$500, at any time outstanding, when surrendered with all unmatured coupons attached, and upon the payment of the charges hereinafter provided, may be exchanged for an equal aggregate principal amount of bonds of 1927 of the other denomination, of numbers not contemporaneously outstanding, with all unmatured coupons attached. Whenever any bond or bonds of 1927 shall be presented for exchange under this section 4, with all unmatured coupons attached, the Republic shall execute, and, upon surrender to it of such bond or bonds of 1927 and coupons, the trustee shall authenticate and deliver in exchange therefor, the bond or bonds of 1927 which the bondholder making the exchange shall be entitled to receive. All bonds of 1927 so surrendered for exchange and the coupons appurtenant thereto shall be canceled by the trustee and delivered to a representative designated by the Republic for that purpose in the city of New York, or sent by registered mail to the embassy of the

Republic at Washington, at the risk and expense of the Republic. Upon every exchange of bonds of 1927 the Republic may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge required to be paid in connection therewith and in addition may charge a sum not exceeding \$1 for each new bond of 1927 issued upon any such exchange.

The Republic agrees that it will at all times and from time to time, when and as requested by the trustee, and in advance of the actual need therefor, provide the trustee with a sufficient number of bonds of 1927 of each denomination, duly executed by the Republic, and which when authenticated, exchanged, and delivered pursuant hereto, shall constitute the valid and binding obligations of the Republic, to take care of exchanges of bonds of 1927 as herein provided, which bonds of 1927, however, shall in no event be authenticated by the trustee unless and until required in connection with any such exchange.

SEC. 5. Unless an event of default as defined in section 2 of Article VII hereof shall have occurred and be subsisting, the Republic may, subject to the provisions hereof, from time to time issue additional bonds under this trust agreement by creating additional series of the bonds in accordance with the provisions of this section 5; provided that the bonds of all series shall be limited, except as provided in section 7 of this Article II, to the aggregate principal amount of £5,000,000 English pounds sterling, or \$24,332,500, the equivalent amount in United States dollars at par of exchange, \$4.8665 for £1. The bonds of each series shall be distinctively designated by the number of the year in which issued or by letter or in any other manner desired by the Republic and satisfactory to the trustee. All bonds of the same series shall be identical in form and substance except that they may be of different denominations and may be in coupon or registered form and except that as between bonds of different denominations and as between coupon bonds and registered bonds there may be such appropriate differences as may be determined by the Republic and approved by the trustees at or before the issue of the respective series. The several series may consist of different aggregate principal amounts, and the maximum principal amount of bonds of any series issuable shall be limited, and such limitation shall be expressed in the bonds of such series. The bonds of each series shall bear interest from such date, at such rate, and payable on such dates and shall mature on such date after January 1, 1960, as at the time of the creation of such series shall be fixed by the Republic and stated in said bonds. A cumulative sinking fund shall be created for each series of the bonds of not more than 1 per cent per annum to be applied to purchase of bonds at such prices or to the redemption of bonds at their principal amount or at such premium or in such other manner as the Republic may provide at the time of the creation thereof. The principal and interest of each series of the bonds shall be payable in gold coin of the United States of America or, if the Republic shall so provide at the time of the creation thereof, in British gold coin, or both, at the rate of exchange hereinbefore provided. The Republic may provide in the creation thereof that the bonds of any series may be redeemed at its option in whole or in part before maturity at their principal amount or at a premium plus accrued interest, and such provisions shall be expressed in the bonds of said series. Except as aforesaid, the terms and provisions of all additional series of the bonds shall be substantially identical with the terms and provisions of the bonds of 1927. All bonds of any series issued hereunder shall be entitled to share in the security of the pledged revenues equally and ratably with the outstanding bonds of the same and all other series issued hereunder.

No bonds of any series in addition to the \$15,000,000, principal amount, of the bonds of 1927 shall be issued by the Republic or authenticated by the trustee unless and until the pledge revenues, calculated on a gold basis, shall have averaged for the three years ending on the last day of the calendar month next preceding the date of issue of such additional bonds, and shall have equalled for the last of such years, at least one and one-half times the maximum amount necessary in any year to meet all charges for the services of interest on and amortization of the bonds of all series outstanding at the time of such additional issue and of the additional bonds to be issued.

Whenever requesting the authentication and delivery of any bonds in addition to the \$15,000,000, principal amount, of the bonds of 1927, the Republic shall deliver to the trustee a certificate signed by its Minister of Finance or other responsible official stating (a) the average annual pledged revenues, calculated on a gold basis, for the three years ending on the last day of the calendar month next preceding the date of such additional issue, (b) the pledged

revenues, calculated on a gold basis, for the last of such years, (c) that the average annual pledged revenues, calculated on a gold basis, for the three years ending on the last day of the calendar month next preceding the time of such additional issue, are at least one and one-half times the maximum amount necessary in any year to meet all charges for the service of interest on and amortization of the bonds of all series outstanding at the time of such additional issue and of the additional bonds to be issued pursuant to such request, and (d) that the pledged revenues, calculated on a gold basis, for the last of such years were at least one and one-half times such maximum amount. The trustee may rely upon such certificate in authenticating any additional bonds hereunder and shall be absolutely protected in so doing. The trustee may, however, in its discretion, require such further certificate or certificates or may make such further investigation as it may deem necessary to determine that such additional issue will comply with the requirements of this section 5. The trustee, however, shall be under no obligation to require any such further certificate or certificates or to make any such further investigation unless requested so to do by the holders of 10 per cent of the bonds then outstanding hereunder, and unless tendered security and indemnity satisfactory to the trustee against any and all costs, expenses, and liability.

If the Republic shall at any time request the authentication of any additional bonds hereunder, the Republic shall, prior to the authentication of any such additional bonds, execute and deliver to the trustee such supplemental agreements hereto as the trustee, being advised by counsel, may deem requisite to provide for all matters in connection with the creation of any new series of bonds and the issue of any additional bonds hereunder as provided in this section 5. All such supplemental agreements shall be duly authorized and executed in conformity with the constitution and laws of the Republic.

Sec. 6. A temporary printed or typewritten bond or bonds of any series with or without coupons, and with or without the facsimile seal of the Republic, and of any denomination or denominations, substantially of the tenor of the definitive engraved bonds of such series with such omissions, additions, and variations as may be appropriate, may be executed by the Republic, authenticated by the trustee and issued hereunder, subject to all the terms and conditions hereof, and in such form as may be approved by counsel for the trustee, exchangeable for a definitive engraved bond or bonds of the same series of like aggregate principal amount and substantially of the same tenor, upon surrender of such temporary bond or bonds with all unmatured coupons, if any, to the trustee, when definitive engraved bonds are ready for delivery, and notice thereof is given by the trustee; and the surrender of such temporary bond or bonds with all unmatured coupons, if any, shall be a full acquittance to the trustee for the delivery of the definitive bonds and the trustee shall cancel the temporary bond or bonds and coupons so received and deliver such cancelled temporary bond or bonds and coupons, if any, to a representative designated by the Republic for that purpose in the city of New York, or send the same by registered mail to the embassy of the Republic in Washington, at the risk and expense of the Republic, and shall be under no further obligation and have no further duty with reference to said temporary bond or bonds. The temporary bond or bonds of any series of the bonds at any time issued hereunder shall bear the facsimile signature of the present, or any future Minister of Finance of the Republic and/or shall be manually signed on behalf of the Republic by its ambassador to the United States of America at Washington, or other representative of the Republic thereunto duly authorized.

Sec. 7. If any bond shall become mutilated or be lost, stolen, or destroyed, the Republic shall execute and thereupon the trustees shall authenticate and deliver a new bond of the same series and denomination and having attached thereto corresponding coupons, in exchange for such mutilated bond and coupons or in substitution for such lost, stolen, or destroyed bond and coupons. In case of loss, theft, or destruction, the applicant shall furnish the Republic and the trustee and the fiscal agents with evidence satisfactory to each of them of such loss, theft, or destruction and shall also furnish each of them such security and indemnity as the Republic and the trustee and the fiscal agents may respectively require in their absolute discretion. At the time of the delivery of any new bond pursuant to the provisions of this section the owner of such mutilated, lost, stolen, or destroyed bond shall reimburse the Republic for any reasonable expense incurred by the Republic, including any counsel fees and any charges made by the trustee in connection with the execution, authentication, and delivery of such new bond, and also for any

United States stamp tax or United States governmental charge incident to the execution, authentication, and delivery of such new bond. The provisions of this section 7 shall apply to any temporary bonds that may be issued hereunder.

SEC. 8. The Republic, the fiscal agents, and the trustee, and each of them may deem and treat the bearer of any bond or coupon as the actual owner of such bond or coupon for the purpose of making payment thereof and for all other purposes whatsoever and neither the Republic nor the fiscal agents nor the trustee nor any one of them, shall be affected by any notice to the contrary. The Republic agrees to indemnify and save the trustee and the fiscal agents harmless from and against any and all liability, costs, charges, or expenses incurred by so treating any such bearer.

### ARTICLE 3. REDEMPTION OF BONDS

SECTION 1. The bonds of 1927 are subject to redemption, as a whole or in part, at the option of the Republic, at the office of the fiscal agents in the city of New York, on September 1, 1927, and on any interest date thereafter, at 105 per cent of the principal amount thereof and accrued interest to the redemption date payable in gold coin of the United States of America, of or equal to the standard of weight and fineness aforesaid.

In case at any time the Republic shall desire to redeem the bonds of 1927 as a whole or in part, the Republic shall so notify the fiscal agents in writing, specifying the interest date (which shall not be less than 70 days after such notification) on which it desires to make redemption and the principal amount of the bonds of 1927 which it desires to redeem. As soon as practicable thereafter the fiscal agents shall, on behalf of the Republic, give notice of such redemption, by publication once a week for six successive weeks, the first publication to be at least 60 days, and not more than 90 days, before the redemption date, in at least one daily newspaper published in English in the borough of Manhattan, in the city of New York, specifying the date of such proposed redemption and the redemption price, and, in case of partial redemption, the numbers of the bonds of 1927 to be redeemed, and requiring that the bonds of 1927 so called for redemption and all coupons appurtenant thereto maturing on and after such redemption date be surrendered on or after such redemption date at the office of the fiscal agents in the borough of Manhattan, in the city of New York, for redemption at said redemption price, and stating that interest on such bonds of 1927 shall cease on such redemption date; and upon such redemption date the bonds of 1927 so called for redemption shall become due and payable as aforesaid.

In case of partial redemption, the fiscal agents shall determine by lot in any usual manner, deemed fair by the fiscal agents, the numbers of the bonds of 1927 to be redeemed. A representative of the Republic may be present at any such drawing, if the Republic so elects.

The Republic shall, at least 30 days prior to the date so fixed for such redemption, deposit with the fiscal agents a sum of money sufficient to pay the redemption price of the bonds of 1927 so called for redemption together with the accrued interest thereon to the date of redemption, and the fiscal agents shall pay out of such deposited moneys the principal of, and premium and accrued interest on, all such bonds of 1927 presented for surrender and redemption on and after said redemption date. From and after the date so designated for redemption, the notice aforesaid having been published and the deposit aforesaid having been made, all bonds of 1927 so called for redemption shall cease to draw interest and upon presentation and surrender of said bonds of 1927, in accordance with said notice, with all appurtenant coupons maturing on and after the date designated for redemption, said bonds of 1927 shall be paid by the Republic at the redemption price aforesaid plus accrued interest to such redemption date. If not so paid on presentation, said bonds of 1927 shall continue to bear interest at the rate of 7 per cent per annum upon the principal amount thereof until paid. Any moneys set aside pursuant to subdivision (a) of section 4 of article 4 hereof for the payment of the interest due and payable on the date designated for redemption on the bonds so called for redemption shall be credited against the obligation of the Republic to deposit such accrued interest as aforesaid.

SEC. 2. All bonds of 1927 paid and redeemed under the provisions of this article 3 and all coupons appurtenant thereto shall immediately upon such payment and redemption be delivered by the fiscal agents to the trustee, and the trustee shall forthwith cancel and deliver the same to a representative desig-

nated by the Republic for that purpose in the city of New York, or send the same by registered mail, to the embassy of the Republic at Washington, at the risk and expense of the Republic. No bonds of 1927 shall be issued in place of such bonds of 1927 so redeemed and canceled.

**ARTICLE 4.—PAYMENTS BY OR ON BEHALF OF THE REPUBLIC**

**Sec. 1.** Until all the bonds of 1927 shall have been redeemed or paid, the Republic shall pay semiannually to the fiscal agents for the semiannual service of interest on and amortization of the bonds of 1927, the sum of \$600,000 in gold coin of the United States of America of the standard aforesaid, which semiannual sum is calculated to pay all interest charges on the bonds of 1927 and to retire the entire issue thereof by maturity as shown by the table of amortization, which is annexed hereto and marked Exhibit A. Such sums shall be paid by the Republic in monthly installments as hereinafter in section 2 of this article 4 provided and shall be applied by the fiscal agents, upon receipt thereof, in the manner hereinafter in section 4 of this article 4 provided.

**Sec. 2.** The Republic will pay, so long as any of the bonds of 1927 shall be outstanding, to the fiscal agents at their principal office in the city of New York, in gold coin of the United States of America of the standard aforesaid, the following amounts:

(a) The sum of \$100,000 in March, 1927, and monthly in each calendar month thereafter. Said sum is equal to one-sixth of the amount necessary for each semiannual installment for the service of interest on and amortization of the bonds of 1927 as hereinbefore in section 1 of this article 4 provided. Such monthly payments shall be made in the following manner: On the first Monday of each calendar month, beginning with the first Monday in March, 1927, and on each Monday thereafter all amounts collected by or on behalf of the Republic from the pledged revenues during the preceding week shall be paid by or on behalf of the Republic to the representative of the fiscal agents in Peru (appointed as hereinafter in section 1 of article 12 provided and hereinafter called the Peruvian representative), until the entire amount of the monthly payment aforesaid shall have been received by the Peruvian representative. Such weekly payments shall be made either in dollars of the United States of America, or, with the consent of the fiscal agents, in Peruvian pounds and in the event that such payments shall be made in Peruvian pounds, the amount thereof shall be applied by the Peruvian representative, as soon as practicable after the receipt thereof, to the purchase of dollars for account of the Republic. All such dollars so paid or purchased shall, at the direction of the fiscal agents, forthwith be remitted by the Peruvian representative to the fiscal agents in the city of New York.

(b) Such sum on or before the last day of each calendar month, commencing with March, 1927, as may be necessary to make up the deficiency, if any, by which the pledged revenues of the Republic, paid over for the service of interest on and amortization of the bonds of 1927 as in paragraph (a) above provided, shall not be sufficient for the full payments therein specified to be made in respect of each such calendar month.

Any such consent of the fiscal agents to the payment by the Republic to the Peruvian representative in Peruvian pounds as in subdivision (a) of this section 2 provided, may at any time be revoked by the fiscal agents by notice in writing addressed and sent by registered mail to the ambassador of the Republic at Washington, and thereupon such payments to the Peruvian representative shall be in dollars of the United States of America.

**Sec. 3.** The failure of the fiscal agents to secure the services of a bank, firm, corporation, or responsible individual to act as its representative in Peru or the failure of the fiscal agents to appoint such representative in Peru, shall not relieve the Republic of its obligation to make the full monthly payments provided in section 2 of this article 4, and the Republic agrees that in such event it will make such payments in dollars directly to the fiscal agents in the city of New York.

**Sec. 4.** The fiscal agents shall apportion and apply the moneys received by them pursuant to the provisions of section 2 of this article 4 as follows:

(a) The fiscal agents shall set aside out of such moneys received by them in each calendar month one-sixth of the amount necessary to pay the interest due and payable on the next succeeding interest payment date on the bonds of 1927 outstanding on the preceding interest payment date and shall apply the same to the payment of such interest on such next succeeding interest payment date

on presentation and surrender of the coupons for such interest in accordance with the terms thereof.

(b) The fiscal agents shall set aside the balance of such moneys received by them in each calendar month as a sinking fund for the redemption of bonds of 1927 on behalf of the Republic on the next succeeding interest payment date and shall apply the same to such redemption on such interest payment date in the manner hereinafter in section 1 of article 5 hereof provided.

#### ARTICLE 5.—SINKING FUND

SECTION 1. The moneys set aside by the fiscal agents in each six months' period pursuant to subdivision (b) of section 4 of article 4 hereof, together with any amounts carried forward from the next preceding six months' period pursuant to section 2 of this article 5, shall be applied by the fiscal agents to the redemption on the next succeeding interest payment date (the first application to such redemption to be made September 1, 1927, and the subsequent applications to be made on interest payment dates thereafter) of bonds of 1927 at the redemption price of 105 per cent of the principal amount thereof and accrued interest thereon to such interest payment date at the office of the fiscal agents, in the Borough of Manhattan, in the city and State of New York, in gold coin of the United States of America of or equal to the standard of weight and fineness aforesaid; and the fiscal agents are hereby authorized and empowered to redeem bonds of 1927 with such moneys in the manner and at the redemption price aforesaid on each interest payment date in the name and on behalf of the Republic and at its expense. The serial numbers of the bonds to be redeemed in each case shall be selected, and notice of each such redemption shall be given, in the same manner as in the case of partial redemption of bonds of 1927 by the Republic, as provided in section 1 of article 3 hereof, except that notice of redemption for the sinking fund shall be published once a week for three successive weeks prior to the date on which such redemption is to be made, the first publication to be made not more than 45 days and not less than 30 days prior to such redemption date. From and after the date so set for redemption, notice having been given by publication as aforesaid and the moneys required for such redemption having been paid to the fiscal agents, all bonds of 1927 so called for redemption shall cease to draw interest and upon presentation and surrender of said bonds of 1927 in accordance with said notice, with all appurtenant coupons maturing on or after the date designated for redemption, said bonds of 1927 shall be paid and redeemed by the Republic at the redemption price aforesaid and accrued interest to the date of such redemption. If not so paid on presentation thereof, said bonds of 1927 shall continue to bear interest at the rate of 7 per cent per annum on the principal amount thereof until paid.

Accrued unpaid interest on bonds of 1927 redeemed for the sinking fund shall not be paid by the fiscal agents out of the moneys set aside for the sinking fund pursuant to subdivision (b) of section 4 of article 4 hereof nor out of any other moneys in the sinking fund, but shall be paid out of the moneys set aside pursuant to subdivision (a) of said section 4 of article 4 hereof for the payment of interest on the bonds of 1927.

SEC. 2. Any fractional amounts of moneys applicable to the redemption of bonds of 1927 for the sinking fund which can not be so allied by reason of the fact that there are no bonds of 1927 in denominations smaller than \$500 and which thus remain in the hands of the fiscal agents after any semiannual interest payment date shall be carried over and applied with the moneys set aside for the sinking fund during the next succeeding six months' period to the redemption of bonds of 1927 on the next succeeding interest payment date.

SEC. 3. All bonds of 1927 paid and redeemed for the sinking fund pursuant to section 1 of this article 5 and all coupons appurtenant thereto shall immediately upon such redemption be delivered by the fiscal agents to the trustee and the trustee shall cancel and deliver the same to a representative designated by the Republic for that purpose in the city of New York, or send the same by registered mail to the embassy of the Republic at Washington, at the risk and expense of the Republic. No bonds shall be issued in place of such bonds of 1927 so redeemed.

SEC. 4. No expenses of any character incurred by the fiscal agents in connection with the administration of the sinking fund shall be charged against the sinking fund or paid out of any moneys in the sinking fund, but all such expenses shall be borne by the Republic and shall be paid by the Republic to the fiscal agents upon their written request.

## ARTICLE 6.—PARTICULAR COVENANTS OF THE REPUBLIC

The Republic covenants and agrees as follows:

**SECTION 1.** The Republic will duly and punctually pay the principal of, and the premium and the interest upon the bonds, according to the tenor thereof and hereof, in every case free from and without deduction or diminution for any taxes, assessments, charges, levies, or duties of any nature now or at any time hereafter levied or imposed by the Republic or by any State, Province, municipality, or other taxing authority thereof or therein. The Republic will make payment of such principal, premium, and interest in time of war as well as in time of peace and whether the holders of the bonds and coupons be citizens or residents of a friendly or of a hostile State.

The interest on coupon bonds shall be payable, until the maturity thereof, only upon presentation and surrender of the several coupons for such interest as they respectively mature. The interest on temporary bonds, if issued without coupons, shall be payable only upon the presentation thereof for the notation thereon of such payment. The interest on registered bonds shall be payable only to the registered holders thereof. When and as paid, all coupons shall forthwith be delivered by the fiscal agents to the trustee and the trustee shall cancel and deliver the same to a representative designated by the Republic for that purpose in the city of New York, or send the same by registered mail to the embassy of the Republic at Washington, at the risk and expense of the Republic.

The Republic will not directly or indirectly extend or assent to the extension of the time of payment of any coupon or claim for interest on any of the bonds, and will not directly or indirectly be a party to or approve such extension by purchasing or refunding such coupons or claims for interest, or in any other manner.

The Republic covenants that it will pay the stamp taxes and other duties and charges, if any, to which, under the laws of the Republic this trust agreement or the bonds, temporary or definitive, may be subject.

**Sec. 2.** The Republic covenants that, so long as any of the bonds shall be outstanding, it will maintain an office or agency in the borough of Manhattan, in the city and State of New York, where notices, requests, or demands in respect of the bonds or interest coupons, or of this trust agreement, may be served, and from time to time the Republic will give written notice to the trustee of the location of such office or agency. In case the Republic shall fail to maintain such office or agency or to give the trustee notice of the location thereof, such demands may be made, and such notices and requests may be served, at the principal office of the trustee in said borough of Manhattan.

**Sec. 3.** The Republic covenants that it will not permit the authentication and delivery of any bonds hereunder in addition to the \$15,000,000, principal amount, bonds of 1927, other than bonds issued to effect exchanges of bonds or to replace mutilated, lost, stolen, or destroyed bonds as provided in sections 4 and 7 of article 2 hereof, except in accordance with the provisions of section 5 of article 2 hereof.

**Sec. 4.** The Republic covenants that it will, from time to time upon the request of the trustee, furnish the trustee with a report or statement signed by the minister of finance or other responsible official of the Republic, showing in reasonable detail the receipts and expenditures of the Republic each month during the period specified in such request, and that it will furnish any other information which the trustee may request as to any other matters pertaining to its revenues or affecting the service of the bonds or the performance of its covenants contained in this trust agreement.

**Sec. 5.** The Republic covenants that the pledged revenues are free from all liens or charges whatsoever except such liens or charges as are specifically excepted in section 2 of article 1 hereof, and the Republic further covenants that, so long as any of the bonds are outstanding, it will not create or suffer to be created any lien or charge upon the pledged revenues prior or equal to the lien and charge of the bonds issued hereunder.

**Sec. 6.** The Republic covenants that, so long as any of the bonds are outstanding, it will not reduce, abolish or in any manner impair, or permit the reduction, abolition, or impairment of, the pledged revenues, or abolish or impair the monopoly or in any other manner impair, or permit the impairment of the security of the bonds.

**Sec. 7.** The Republic covenants that, at the election of the fiscal agents and so long as any of the bonds are outstanding, one person designated by the fiscal

agents shall be a member of the board of directors (consejeros) of the caja or, as the case may be, of any successor company which shall be designated by the Republic to collect the pledged revenues, and one person designated by the fiscal agents shall be an alternate member of such board to act in the place and stead of such member in case of such member's death, resignation or inability for any reason to act; and the Republic covenants that at all times such member, or, in case of such member's death, resignation, or inability to act, such alternate member, shall have the same rights and powers, in so far as are concerned all matters relating to the manufacture and sale of tobacco and its products and the collection of the pledged revenues, and shall be entitled to the same compensation, as other members of such board. In case of the death, resignation or inability for any reason to act of such member so designated, the alternate member shall act in such member's place and stead until the fiscal agents shall similarly designate the successor of such member and the Republic covenants to elect or appoint, or to cause to be elected or appointed, as soon as practicable thereafter, such successor a member of such board. In case the successor so designated shall be the person previously designated as alternate member, or in case of the death, resignation, or inability for any reason to act, of the alternate member, a successor of such alternate member shall be similarly designated by the fiscal agents and the Republic covenants to elect or appoint, or to cause to be elected or appointed, as soon as practicable thereafter, such successor an alternate member of such board.

If, at any time so long as any of the bonds of 1927 shall be outstanding, the Republic shall withdraw from the caja or any successor thereto, the collection of the pledged revenues, or the caja or such successor either by virtue of the operation of paragraph 9 of article 2 of the law of the Republic No. 4500 (law creating the Banco de Reserva del Peru) or for any other reason whatsoever shall cease to collect the pledged revenues, the fiscal agents in agreement with the Republic may in their discretion, but shall not be obligated to, appoint a company, now in existence or to be organized, firm, or responsible individual to take over the entire collection of the pledged revenues. In the event of the appointment of such company, firm, or individual, the Republic shall immediately transfer to such company, firm, or individual and will cause the caja and any other collection agency for the collection of the pledged revenues to transfer to such company, firm, or individual all the facilities for the collection and control of all the pledged revenues and, thereupon such company, firm, or individual shall collect the pledged revenues and shall, from the sums collected, after deducting all its or his reasonable expenses, including an allowance for its or his reasonable compensation and the expenses and compensation of the trustee and fiscal agents, remit to the fiscal agents in New York the amounts for the service of interest on and amortization of the bonds of 1927 as set forth in paragraph (a) of section 2 of article 4 hereof.

In the event that the fiscal agents shall appoint a company for the purpose above mentioned, the Republic shall have the right to name one of the members of the board of directors of such company and, in the event of the death, resignation, or inability for any reason to act of such member, a successor.

SEC. 8. The Republic covenants that it will apply the proceeds of the sale of the bonds of 1927, to the payment of the secured gold notes outstanding at the date of this trust agreement, to the construction of plants and the purchase of machinery for the manufacture of cigars and cigarettes, to the construction of railroads, irrigation, and sewage systems and for other lawful purposes.

SEC. 9. The Republic covenants that all acts, conditions and things prescribed by the constitution and laws of the Republic, which are necessary to make this trust agreement and the bonds of 1927 the valid and binding obligations of the Republic, have been done and performed and have happened.

#### ARTICLE 7.—REMEDIES OF TRUSTEE AND BONDHOLDERS

SECTION 1. Neither (a) any coupon which shall have been extended in contravention of the provisions of section 1 of article 6 hereof, nor (b) any coupon which in any way, at or after maturity, shall be transferred or pledged separate and apart from the bond to which it is appurtenant, shall be entitled, in case of default hereunder, to any benefit from this trust agreement, except after the prior payment in full of the principal of, and premium upon, all the bonds and of all the coupons not so extended, transferred, or pledged.

SEC. 2. If one or more of the following events, herein called events of default, shall happen, that is to say—

(a) Default shall be made in the prompt payment of the principal of, or the premium upon, any of the bonds, or any part of such principal or premium, as and when the same shall become due and payable, whether at maturity, by proceedings for redemption, or otherwise, as therein and herein provided; or

(b) Default shall be made in the payment of any instalment of interest on any of the bonds, as and when the same shall become due and payable, as therein and herein provided, and such default shall continue for a period of 30 days; or

(c) Default shall be made in any payment to the fiscal agents for the service of interest on and amortization of the bonds, as and when the same shall become due and payable, as herein provided, and such default shall continue for a period of 30 days; or

(d) Default shall be made in the performance of any other covenant in the bonds or in this trust agreement contained, and such default shall continue for a period of 30 days after written or cabled notice to the Republic from the trustee specifying the nature of such default;

then, and in each and every such case, during the subsistence of such event of default, and whether or not a special collections agency has been appointed as hereinafter in section 3 of this article 7 provided, the trustee may, and, upon the written request of the holders of not less than one-fourth in principal amount of the bonds then outstanding, shall, by written or cabled notice to the Republic, declare the principal of all the bonds then outstanding (if not already due and payable) to be immediately due and payable, and upon any such declaration the principal of all the bonds then outstanding shall immediately become and be due and payable, anything in the trust agreement or in the bonds to the contrary notwithstanding.

This provision, however, is subject to the condition that if at any time after the principal of the bonds shall have so become due and payable, and prior to the date of the maturity thereof stated in the bonds, all arrears in payment of the interest on and amortization of all of the bonds, with interest at the rate of 7 per cent per annum on any overdue payments, and the expenses of the trustees and of the fiscal agents, shall be paid by the Republic, and every other default in the observance or performance of any covenant or condition of the bonds or of this trust agreement shall be made good or be secured to the satisfaction of the trustee, or provision deemed by the trustee to be adequate shall be made therefor, then and in every such case the holders of a majority in principal amount of the bonds then outstanding, by a written notice to the minister of finance of the Republic and to the trustee, may waive the default by reason of which the principal of the bonds shall have so become due and payable, and may rescind and annul such declaration and its consequences; but no such waiver, rescission or annulment shall extend to or shall affect any subsequent default or impair any right consequent thereon.

SEC. 3. In case any one or more of the events of default mentioned in section 2 of article 7 shall have happened and be subsisting, and whether or not the principal of all of the bonds then outstanding shall have been declared due and payable as hereinbefore in section 2 of this article 7 provided, the trustee may, and, upon the written request of not less than one-fourth in principal amount of the bonds then outstanding, shall appoint, and the Republic shall be obligated to consent to the appointment of, and the Republic hereby does consent to the appointment of a special collections agency, which shall be a company, bank, firm, or responsible individual designated by the trustee with the sole right to collect, at the expense of the Republic, the pledged revenues. In the event of the appointment of a special collections agency, the Republic shall immediately transfer to such agency and will cause the caja and any other collecting agency for the collection and control of the pledged revenues to transfer to such special collections agency all the facilities for the collection of the pledged revenues and thereafter all moneys payable to the Republic and/or any other collecting agency from the pledged revenues shall be paid to such special collections agency. The special collections agency shall acknowledge receipt of all moneys received by it by issuing receipts in such form as it shall determine and the Republic covenants that such receipts, and only such receipts, shall be full acquittance for the payment of any moneys due and payable to the Republic and that if requested by the special collections agency such receipts shall be countersigned on behalf of the Republic by its Minister of Finance or other duly authorized representa-

tive. From the sums collected, the special collections agency shall, after deducting all its reasonable expenses, including an allowance for its own reasonable compensation, retain and remit to the trustee in New York the remainder thereof until the full amount then due on the bonds and coupons for principal, premium, and interest and otherwise, under the trust agreement, including the expenses and compensation of the trustee, the fiscal agents and their representatives, shall have been fully paid and discharged, and shall then, if any of the bonds remain outstanding, retain and remit to the fiscal agents in New York from time to time as required the amounts required for the service of interest on and amortization of such bonds and all other amounts payable under the trust agreement as aforesaid when and as the same shall become due and payable. The Republic shall pay all the costs and expenses of administration of the monopoly out of other revenues of the Republic. Any balance of the collected revenues not required by the special collections agency for the purposes above specified shall be paid over to the Republic.

SEC. 4. In case any one or more of the events of default mentioned in section 2 of this article 7 shall have happened, and such default shall be continuing, the trustee may, in its discretion, and upon the written request of the holders of one-fourth in principal amount of the bonds then outstanding and upon being indemnified to its satisfaction shall proceed by due and appropriate proceedings under the laws of the Republic of Peru or otherwise, as it may be advised by counsel and as may appear to it to be desirable or necessary, to enforce the terms and provisions of this trust agreement, and otherwise to take all necessary and proper steps for the collection of the amount then due and payable in respect of principal, premium and interest, and interest upon interest, upon all of the bonds and coupons, and all other amounts that may then be due and payable under this trust agreement. The trustee is hereby irrevocably appointed the special agent and representative of the holders of the bonds and vested with full power and authority on their behalf to enforce this trust agreement for the benefit of the bondholders, with full power and authority to bring and defend, as such trustee, for and on behalf of such bondholders, and each of them, any action or proceeding in the Republic or elsewhere for the interpretation and enforcement of this trust agreement; but, anything in this trust agreement contained to the contrary notwithstanding, the holders of a majority in principal amount of the bonds then outstanding, in case any one or more of the events of default mentioned in section 2 of this article 7 shall have happened, and such default shall be continuing, shall, in so far as may be lawful, have the right, from time to time, to direct and control any proceedings for the collection of the amounts due and payable upon the bonds, or any of them, or any other proceedings taken by virtue of any provisions of this trust agreement; but they shall have no right or power to involve the trustee in any personal liability of any kind without first and from time to time indemnifying it to its satisfaction.

SEC. 5. In case the trustee shall declare the principal of the bonds issued hereunder to be immediately due and payable as provided in section 2 of this article 7, or in case the trustee shall appoint a special collections agency as provided in section 3 of this article 7, the fiscal agents shall forthwith pay to the trustee all interest and sinking-fund moneys and redemption moneys paid to them prior to such declaration or to such appointment and remaining in their hands, and the trustee shall apply such moneys ratably to the bonds of the series in respect of which such interest and sinking-fund moneys and redemption moneys were paid to the fiscal agents.

SEC. 6. In case of any payments to the trustee by the special collections agency, or the collection of any funds for the benefit of the holders of the bonds by the enforcement of this trust agreement, the amounts collected or received by the trustee, together with all other funds which may then be in its possession and be distributable, except funds received from the fiscal agents as provided in section 5 of this article 7, shall be applied as follows:

(1) To the payment of the costs, expenses, fees, and other charges of any proceedings whatsoever taken by the trustee pursuant to section 4 of this article 7 and the reasonable compensation of the trustee, its agents and attorneys, to the payment of all expenses and liabilities incurred and advances or disbursements made by the trustee, and to the payment of all expenses incurred by the fiscal agents and the Peruvian representative;

(2) Any amount then remaining to the payment:

(a) If the principal of all the bonds shall not have become due and payable, of the whole amount of interest, if any, then due and unpaid upon the bonds outstanding, ratably according to the aggregate of such due and unpaid interest

with interest on all overdue instalments of interest at the same rates respectively borne by the bonds the interest upon which shall be in default, and any amount then remaining to the principal then due and unpaid, if any, of the bonds outstanding, ratably according to the aggregate of such due and unpaid principal, and any amount then remaining to the payment to the fiscal agents of any payments then due and unpaid for the service of the bonds, for interest, sinking fund, or otherwise, such payments to be applied by the fiscal agents to the payment of the interest and sinking fund of each series of the bonds ratably in proportion to the aggregate amount then due and unpaid for interest and sinking fund of each such series; or

(b) If the principal of all the bonds shall have become due and payable, of the whole amount due and unpaid upon the bonds, for both principal and interest, with interest on all overdue instalments of interest at the same rates respectively borne by the bonds the interest upon which shall be in default; and in case the amount so applicable shall be insufficient to pay in full the whole amount so due and unpaid upon the bonds, then to the payment of such principal and interest ratably according to the aggregate of such principal and unpaid interest without preference or priority of principal over interest, or of interest over principal, or of any instalment of interest over any other instalment of interest;

(3) If the principal of all of the bonds shall not have become due and payable, any amount then remaining to the payment to the fiscal agents of the amounts required for the service of interest on and amortization of the bonds when and as the same shall become due and payable.

Sec. 7. No remedy herein conferred upon, or reserved to, the trustee is intended to be exclusive of any other remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing under the laws of the Republic or of the United States of America, or otherwise. The Republic recognizes that the trustee, or its successor or successors, acting as the representative of the holders of the bonds issued hereunder, may represent said holders and may institute and carry on for them in its own name all actions and proceedings, whatever be the grounds thereof, without being required to produce any of the bonds in any court or elsewhere, or to prove its agency for, or authority from, said holders. These provisions are of the essence of this trust agreement and of any agreement or instrument supplemental hereto and the respective holders of the bonds, by their acceptance of the bonds, irrevocably confer upon the trustee the authority aforesaid.

Sec. 8. In case the trustee shall have proceeded to enforce any right under this trust agreement, and any such proceeding shall have been discontinued and abandoned for any reason, or shall have been decided adversely to the trustee, then and in every such case, the Republic and the trustee shall severally and respectively be restored to their former position and rights hereunder and in respect of the pledged revenues, and all rights, remedies, and powers of the trustee shall continue as though no such proceeding had been taken.

Sec. 9. No delay or omission of the trustee, or of any holder of any of the bonds, to exercise any right or power accrued hereunder upon any event of default, shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; nor shall the action of the trustee or of the holders of the bonds, in case of any default or in case of any default and the subsequent waiver of such default, affect or impair the rights of the trustee or of such holders with respect to any subsequent default on the part of the Republic, or impair any right resulting therefrom, and every power and remedy given by this article 7 to the trustee or to the holders of the bonds, respectively, may be exercised from time to time, and as often as may be deemed expedient, by the trustee or by such holders.

#### ARTICLE 8.—BONDHOLDERS' ACTS, HOLDING AND APPARENT AUTHORITY

SECTION 1. Any demand, request, notice, direction, consent, waiver, appointment, removal, or other instrument required or permitted by this trust agreement to be signed or executed by holders of bonds may be in any number of concurrent writings of similar tenor and may be signed or executed by such holders in person or by agent appointed in writing. Proof of the execution of such demand, request, notice, direction, consent, waiver, appointment, removal, or other instrument, or of the writing appointing any such agent, and of the

ownership by any person of bonds or of coupons, shall be sufficient for any purpose of this trust agreement and shall be conclusive in favor of the trustee or of the Republic with regard to any action by them, or either of them, taken under such instrument, if such proof be made in the following manner:

(1) The fact and date of the execution by any person of any such instrument may be proved by the certificate under his official seal of any notary public or other officer in any jurisdiction, who, by the laws in force in such jurisdiction, has power to take acknowledgments or proofs of deeds to be recorded within such jurisdiction, certifying that the person signing such instrument did acknowledge before him the execution thereof, or may be proved by the affidavit of a witness of such execution.

(2) The fact of the holding by any person of bonds and coupons and the amounts and numbers of such bonds, and the date of his holding the same, may be proved by a certificate executed by any trust company, bank, banker, or other depository (wherever situated), if such certificate shall be deemed by the trustee to be satisfactory, showing that at the date therein mentioned such person had no deposit with, or exhibited to, such trust company, bank, banker, or other depository the bonds and coupons described in such certificate. Such ownership shall be presumed to continue until written notice to the contrary is served upon the trustee.

#### ARTICLE IX—CONCERNING THE TRUSTEE

SECTION 1. The trustee for itself and its successors hereby accepts the trusts created by this trust agreement, but only upon the terms and conditions hereof, including the following, all of which shall bind the Republic and the holders of the bonds and coupons appertaining thereto:

It shall be no part of the duty of the trustee to see to any recording, registering, or filing of this trust agreement or to give any notice thereof or to see to the payment of or be under any duty in respect of any tax or assessment or other governmental charge which may be levied or assessed against the interest of the trustee or of the holders of the bonds in the pledged revenues or against the owners or holders of the bonds or coupons or to see to the payment or discharge of any other or prior liens upon any of the pledged revenues or to see to the performance or observance of any of the covenants or agreements hereof on the part of the Republic.

Unless and until the trustee shall have received written notice to the contrary from the holders of not less than 10 per cent in principal amount of the bonds outstanding, the trustee need not take notice of any default or event of default and the trustee may for all purposes conclusively assume that no default or event of default has occurred or is continuing and may so assume unless the said notice shall distinctly specify the default desired to be brought to the attention of the trustee and the continuance thereof.

The trustee shall not be required to take any action in respect of any default or event of default which, in the opinion of the trustee, will be likely to involve it in expense or liability, or to take any action toward the execution or enforcement of the trusts hereby created or to institute, appear in, or defend any action, suit, or other proceeding in connection herewith, unless requested so to do by an instrument or concurrent instruments in writing, signed by the holders of not less than 10 per cent, in principal amount of the bonds outstanding and delivered to the trustee, and unless tendered security and indemnity satisfactory to the trustee against any and all costs, expenses, and liability, anything herein contained to the contrary notwithstanding; but neither any such notice or request, nor this provision therefor, shall affect any discretion herein given to the trustee, or any method herein provided of determining whether or not the trustee will take action with respect to such default or event of default or whether or not it will take action without such request or indemnity.

The trustee shall not be required to recognize anyone as a holder of bonds issued hereunder, unless and until the bonds claimed to be held are submitted to the trustee for inspection and title thereto established to its satisfaction.

The trustee shall not be compelled to do any act or to make any payment hereunder or in respect hereof, unless put in funds for the purpose. Whenever any provision is made herein for the payment of moneys by the trustee at any time, the trustee shall in no event be liable beyond the amount of moneys deposited with it for such purpose.

All representations and recitals contained in this trust agreement and in the bonds and coupons (save only the certificate of authentication of the trustee upon the bonds) are made by and on behalf of the Republic; and the trustee (save as aforesaid) is in no way responsible therefor or for any statement therein contained or for any action or thing by it done, suffered, or permitted by reason of any representation made by the Republic or any of its officials or representatives. The trustee makes no representations as to the value of the pledged revenues or as to the sufficiency of the security purported to be created thereby for the benefit of the holders of the bonds and the trustee purports to have no knowledge in respect thereof.

The trustee shall not be responsible for the execution or validity hereof or of the bonds, and makes no representation in respect thereof. The trustee shall not be under any duty or obligation to give notice to any person of the making of this trust agreement or to see to the application of any payments made to it, except as herein provided, or of the sale or disposition of any bonds at any time authenticated by it hereunder.

The trustee shall be protected in acting upon any notice, demand, waiver, request, consent, opinion, certificate, report, statement, list, communication, letter, telegram, cablegram, or radiogram, bond or other paper or document believed by it to be genuine and to have been signed, sent, or presented by the proper party or parties.

The trustee shall be under no obligation to make any investigation as to any statement made in any certificate or other document filed with the trustee.

The trustee may exercise its powers and perform its duties by or through, and may select and employ in and about the execution of the trusts hereby created, attorneys, appraisers, accountants, agents, and other employees, whose reasonable compensation shall be deemed part of the expenses of the trustee. The trustee shall not be answerable for the act, default or misconduct of any cotrustee, or copledgee, or depository hereunder, if any, or of any attorney, appraiser, accountant, agent, or other person employed or approved by it pursuant to the provisions hereof if selected with reasonable care; nor shall the trustee be liable for any action whatever taken by it hereunder, except its own willful misconduct.

The trustee may advise with American, Peruvian, or other foreign counsel (who may be counsel for the Republic) and the opinion of counsel shall be full protection and justification to the trustee for anything done or omitted or suffered to be done by it in accordance with such opinion.

The trustee or any company in which it may be interested or any officer, stockholder, or director of the trustee or of any such company, in its or his individual or fiduciary capacity, may acquire, hold, or dispose of bonds and coupons, or may engage in or be interested in any financial or other transactions with the Republic, and the trustee may act as depository, trustee, or agent for any committee or body of holders of bonds or securities, whether or not secured hereby, all with the same rights as though the trustee were not trustee hereunder.

Any moneys at any time received or held by the trustee under any of the provisions of this trust agreement, whether trust funds or otherwise, may be treated by it as a general deposit, without any liability for interest save such as during that time it shall agree with the Republic to pay thereon. So long as none of the events of default specified in section 2 of article 7 hereof shall have happened and such default shall be continuing, all interest allowed by the trustee as aforesaid shall be paid by it from time to time to the Republic or upon its order. The trustee shall not be under any duty to invest any funds held by it or subject to its control.

Any action taken by the trustee upon the request, consent, or authority of any holder of any bonds shall be conclusive upon all future holders or owners of any bonds, and of any bonds issued in exchange therefor or in place thereof, in respect of which such request, authority or consent was given.

SEC. 2. The trustee shall be entitled to compensation for services rendered by it in the execution of the trusts hereby created, at the rate of \$750 per annum, and the Republic agrees from time to time on demand to pay such compensation (which shall not be limited by any provisions of law with respect to compensation of fiduciaries or of a trustee of an express trust) and to reimburse the trustee and save it harmless against any and all liability and expenses, including reasonable counsel fees, which it may at any time incur hereunder; and the charges and expenses of the trustee and of its counsel and all liability by it so incurred shall be secured by this trust agreement, and, if

the Republic shall fail, neglect, or delay to pay the same promptly, they shall be paid from and out of any funds in the hands of the trustee and/or from and out of the pledged revenues prior to any payment therefrom to or upon the order of the Republic or of or on account of any of the bonds or coupons.

Whenever under any of the provisions of this trust agreement the trustee shall be required or shall deem it necessary to be informed as to any facts or conditions preparatory to taking or omitting to take any action required or permitted by this trust agreement, and no provision is contained in this trust agreement for proving or evidencing to the trustee such fact or facts or conditions, the existence of such fact or facts or conditions shall be deemed conclusively proved and evidenced to the trustee when stated in an affidavit by the Minister of Finance of the Republic delivered to the trustee, or in any document, letter, or certificate received or obtained by the trustee through the State Department of the United States of America or any embassy, legation, or consular office of the United States in the Republic, or through any embassy, legation, or consular office of the Republic; but this provision shall not be construed as limiting or restricting the right of the trustee to rely upon and be protected by any of the foregoing provisions of this trust agreement.

Whenever in this trust agreement provision is made for evidencing to the trustee any fact or facts or conditions preparatory to or as a condition of the taking or omitting to take by the trustee of any action under this trust agreement, the trustee may accept the evidence so provided for and any or all statements contained therein as conclusive and sufficient evidence of such fact or facts and condition or conditions, and shall not be liable for any action taken or permitted on the faith thereof; but, notwithstanding this or any other provision in this trust agreement to like effect, the trustee in its discretion and at its option may require the Republic to furnish further proof in respect of such fact or facts or conditions; and if further proof thereof satisfactory to the trustee be not furnished within the time fixed therefor by it, the trustee, at the expense of the Republic, may proceed to make an independent investigation into the truth or accuracy of the statements contained in the evidence theretofore furnished to it, and in case it shall after such independent investigation be satisfied that any such statements are inaccurate, the trustee may in its discretion take, refuse to take or refrain from taking all or any action predicated thereon or may take action predicated upon the facts and conditions as reported to it as a result of such independent investigation. The trustee may accept, as conclusive evidence of the due and regular adoption of any law or resolution or decree of the Republic or of any official thereof, the certification of a copy thereof by the Minister of Finance of the Republic.

The trustee shall not be liable for any error of judgment nor for any act done or steps taken or omitted by it, nor for any mistake of fact or law, nor for anything which it may do or refrain from doing in connection herewith, except only for its own wilful misconduct.

Sec. 3. The trustee or any successor or successors hereunder may resign and be discharged of the trusts created by this trust agreement by executing an instrument in writing resigning such trusts, specifying the date when such resignation shall take effect, and filing the same with the Republic at least 30 days (or such shorter time as may be accepted by the Republic as adequate) before such resignation is to take effect. Such resignation shall take effect on the day specified in such instrument, unless previously a successor trustee shall be appointed as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of such successor trustee.

The trustee or its successor hereunder for the time being (subject to the right to compensation and indemnification and reimbursement as herein provided) may be removed at any time by an instrument or concurrent instruments in writing, executed by the holders of two-thirds in principal amount of the bonds then outstanding and filed with the trustee, and at any time prior to the authentication and delivery of any bonds or, if at any time all of the bonds previously authenticated and delivered shall have been surrendered to the trustee and no bonds shall be outstanding hereunder, the trustee or its successor for the time being, may be removed by an instrument in writing executed by the Republic and filed in like manner; and in such last mentioned case the Republic may appoint a successor to the trustee so removed.

In case at any time any trustee, or any successor or successors, shall resign or shall be removed by holders of the bonds or shall otherwise become incapable of acting, a successor or successors to such trustee in the trust may be appointed by the Republic, if at the time of such resignation, removal, or other incapacity

the Republic shall not be in default in any of its covenants herein expressed. If the Republic shall be in default, then such successor or successors shall be appointed by the holders of a majority in principal amount of the bonds then outstanding by an instrument or concurrent instruments in writing signed by such holders of the bonds or their duly authorized attorneys in fact and filed with the Republic; provided, nevertheless, and it is hereby agreed and declared that in case of any such resignation, removal, or other incapacity, the Republic may, notwithstanding the existence of such default, appoint such successor or successors, until a successor trustee shall be appointed by the holders of the bonds as herein authorized. The Republic shall publish notice of any such appointment by it made at least once in each calendar week (in each instance upon any day of the week) for four successive weeks in a daily newspaper printed in the English language and published and of general circulation in the borough of Manhattan, in the city and State of New York; but any new trustee appointed by the Republic shall immediately and without further act be superseded by a trustee appointed by the holders of the bonds in the manner above provided.

If in a proper case no appointment of a successor trustee shall be made pursuant to the foregoing provisions of this article 9 within 60 days after the resignation or removal of any trustee hereunder shall have taken effect or after any trustee hereunder shall have become incapable of acting, any holder of bonds or the retiring trustee may apply to any court of the United States (State or Federal), having jurisdiction, to appoint a successor trustee, and such court may, if it deems it proper, appoint a successor trustee.

Every trustee at any time appointed in succession to the trustee hereunder shall be a bank or a trust company having an office in the borough of Manhattan in the city of New York and having a paid-up capital and surplus aggregating not less than \$5,000,000, unless there be no such bank or trust company fully authorized and qualified and willing to discharge the duties of the trustee hereunder.

Sec. 4. If at any time or times in order to conform to any legal requirement in the Republic, and the trustee shall deem it desirable, the trustee shall have the power to appoint and, if required by the trustee, the Republic shall unite in the execution and delivery of all instruments and the performance of all acts necessary or proper to appoint, some bank, company, firm, or responsible individual or individuals who may, if required, be residents of the Republic, selected by the trustee, as cotrustee or cotrustees, or copledgee or copledgees hereunder, jointly with the trustee originally named herein, or its successor or successors, or to act as a separate trustee or trustees, or pledgee or pledgees of the revenues at any time pledged hereunder and in either case with such of the rights, powers, duties, and obligations herein conferred or imposed upon the trustee as shall be stated in such instrument or instruments of appointment, the same to be exercised either jointly with the trustee or separately as any such instrument may prescribe, and the Republic hereby irrevocably appoints the trustee its agent and attorney, without any further act by the Republic to appoint any such cotrustee or copledgee and to execute, deliver, and perform any and all instruments and agreements necessary or proper in connection therewith. The Republic will pay the reasonable fees and disbursements of any such cotrustee or copledgee.

Any new trustee appointed hereunder shall execute, acknowledge and deliver to its or his cotrustee or cotrustees, or copledgee or copledgees, if any, and also to the Republic and to the retiring trustee, if any, an instrument in writing accepting such appointment hereunder and, thereupon, such new trustee, without any further act, deed, or conveyance, shall become and be fully vested with all the properties, interests, rights, powers, trusts, duties, and obligations of his or its predecessor in the trust or, if a cotrustee hereunder, with all such thereof as shall be described or set forth in the instrument of its or his appointment, with like effect as if originally named as trustee herein and hereby vested with the same properties, interests, rights, powers, trusts, duties, and obligations; but any trustee ceasing to act shall, nevertheless, on the written request of the Republic, or of the new trustee, execute and deliver at the expense of the Republic an instrument transferring to such new trustee, or to such new trustee and its or his cotrustee, if any, upon the trusts herein expressed, all of the interests, rights, powers, and trusts of the trustee so ceasing to act and shall duly assign, transfer, and deliver all property and moneys held by or for the account of such trustee to the new trustee. Should any instrument in writing from the Republic be required by the new trustee for more fully and

certainly vesting in and confirming to such new trustee such properties, interests, rights, powers, and duties, or any thereof, any and all such instruments in writing shall, on request, be executed, acknowledged, and delivered by the Republic, but the execution, acknowledgment and delivery to the new trustee of all such instruments in writing shall in no manner change or increase the obligations incurred by the Republic under this trust agreement. In the event of any resignation or removal of the trustee hereunder and the appointment of a new trustee, the trustee shall (upon request of such new trustee or the Republic) take such legal proceedings as may be required under the laws of the Republic, either alone or in conjunction with the Republic and/or with the new trustee for the purpose of divesting its interest as exclusive representative of the bondholders hereunder and vesting such interest in the new trustee.

Any trustee or trustees hereunder may, so far as may be lawful, at any time, by an instrument in writing, constitute any other trustee hereunder its, his, or their agent and attorney in fact, with power and authority, to the full extent which may be permitted by law, to do all acts and things and exercise all discretions hereunder in behalf and in the name of the trustee or trustees executing such instrument.

SEC. 5. Any corporation into which the trustee, or any successor to it in the trusts created by this trust agreement, may be merged or with which it, or any successor to it, may be consolidated, or any corporation resulting from any merger or consolidation to which the trustee, or any such successor to it, shall be a party, provided such corporation shall be a bank or trust company authorized to transact business in the borough of Manhattan, in the city and State of New York, shall be the successor trustee under this trust agreement without the execution or filing of any paper or other act on the part of either of the parties hereto, anything herein to the contrary notwithstanding. If any legal proceedings are required under the laws of the Republic in order that any successor corporation arising as a result of a merger or consolidation of the trustee may succeed to the interest of the trustee herein to the pledged revenues, the trustee shall take such legal proceedings, either alone or with the Republic or in conjunction with such successor corporation as may be necessary to vest in the successor corporation the interest of the trustee and the Republic covenants that if requested by the trustee it will take such legal proceedings either alone or in conjunction with the trustee and/or such successor corporation as may be necessary to vest in the successor corporation the interest of the trustee. In case any of the bonds shall have been authenticated but not delivered, any such successor trustee may adopt the certificate of authentication of the trustee or of any successor or successors to it as such trustee hereunder and may deliver such bonds so authenticated; and in all such cases such certificate shall have the full force which it is anywhere in said bonds or in this trust agreement provided that the certificate of the trustee shall have.

SEC. 6. Whenever, according to the provisions of this trust agreement, any notice, request or instruction or order for the payment of money or delivery of securities may be required to be given by one party to the other, it shall be deemed sufficient notice, except as otherwise herein expressly provided, if given in writing in English, or in Spanish, as follows:

(a) If from the trustee to the Republic (1) by registered letter or (2) by cablegram or radiogram and confirmed by registered letter, addressed to the Minister of Finance of the Republic at Lima, Peru.

(b) If from the Republic to the trustee (1) by registered letter or (2) by cablegram or radiogram and confirmed by registered letter, addressed to the trustee at its principal office in the city of New York over the signature of the Minister of Finance of the Republic.

SEC. 7. The foregoing provisions of this Article IX are intended only for the protection of the trustee and shall not be construed to effect any discretion or power given to the trustee by any provision of this trust agreement.

## ARTICLE X

### CONCERNING THE FISCAL AGENTS

SEC. 1. The Republic hereby confirms the appointment of J. & W. Seligman & Co., a co-partnership doing business in the city of New York, as fiscal agents for the service of the bonds. Any successor co-partnership, bank, bankers, or trust company carrying on the business of the fiscal agents shall be deemed to be the fiscal agents. The fiscal agents may resign their functions, powers, rights, and

duties hereunder and become and remain fully discharged from all further duty and responsibility hereunder, upon (1) giving 30 days' notice thereof in writing sent by registered mail addressed to the Minister of Finance of the Republic, or such shorter notice as the Republic may accept as sufficient, and (2) upon the payment to their successors of any money on deposit with them under any provision of this trust agreement. If the fiscal agents, or their successors, shall be disqualified from acting as such by ceasing to exist, ceasing to do business or ceasing to maintain an office in said borough of Manhattan, or shall resign as fiscal agents, their successors shall thereupon be designated by the trustee.

In the event that the trustee shall fail to perform its duty to designate the fiscal agents as aforesaid, then all the functions, powers, rights, and duties of such fiscal agents shall devolve upon and be exercised by the trustee, and in that case the trustee shall be entitled to the same compensation as is herein provided for such fiscal agents, in addition to its fees for acting as trustee as herein provided, and shall have the benefit of all the other provisions of this trust agreement relating to the fiscal agents. The trustee shall incur no liability for any action taken by it in such capacity, save for its gross negligence or wilful default.

SEC. 2. All the usual expenses incurred in good faith by the fiscal agents in connection with the drawing or purchase of bonds, and/or for the payment of the principal of, and/or the premium or interest upon, the bonds, or otherwise in the service of the bonds, including counsel fees, the cost of cabling, and the publication of notices, etc., shall be paid by the Republic from time to time on demand.

The Republic agrees to pay to the fiscal agents as compensation for their services as such agents one-quarter of 1 per cent of all amounts paid to the fiscal agents, for the sinking fund or for the payment of the principal of and the interest and premium on any of the bonds, at maturity or by call for redemption or otherwise, and also the reasonable expenses of the fiscal agents in connection with such agency. Such compensation shall be payable at the office of the fiscal agents in the city and State of New York semiannually on the 1st day of March and the 1st day of September in each year, but such expenses shall be paid from time to time upon demand of the fiscal agents. The fiscal agents shall render to the Republic a statement or account at least 30 days prior to March 1 and September 1 in each year, setting forth in reasonable detail all receipts and all payments and expenses made or incurred, or expected to be made or incurred, by the fiscal agents in connection with such agency up to and including the next succeeding March 1 or September 1, as the case may be, together with a calculation of the sums due or to become due to the fiscal agents for expenses and as compensation for their services as such fiscal agents, rendered or to be rendered up to and including such date. Adjustment will be made in each subsequent statement for any overpayments or underpayments in respect of any estimated expenses previously paid.

Any moneys received by the fiscal agents or their successors under any provision of this trust agreement (anything herein to the contrary notwithstanding) may be treated by them, until they are required to pay out the same conformably herewith, as a general deposit, and they shall not be required to segregate any moneys deposited with them. The fiscal agents shall allow to the Republic on all deposits received by the fiscal agents for the service of the bonds of 1927, interest at rates customarily allowed by banks or trust companies in the city of New York on similar deposits under the rules of the New York Clearing House. Such interest shall be allowed for the period or periods commencing with the first day of the calendar month next succeeding the receipt of each such deposit and ending on the date when such deposits are required to be disbursed in accordance with this trust agreement.

The general accounts connected with the bonds of 1927 and with the service of the bonds of 1927 will be kept by the fiscal agents in the city of New York, in dollars.

SEC. 3. The fiscal agents shall not incur any liability to anybody in acting upon any notice, request, resolution, consent, certificate, note, communication, telegram, cablegram, radiogram, bond, document, or paper believed by them to be genuine and to have been signed by the proper person.

The fiscal agents shall be protected in relying upon a translation of any document executed in the Spanish language, if certified to them by the Minister of Finance of the Republic or by the consul general of the Republic at New York to be a correct translation of the original; but, in the absence of such certificate,

the fiscal agents shall not be liable for any action or failure to take action by them based upon a mistake in the translation of any such document.

The fiscal agents, save for their willful default, or for their gross negligence after personal notice and distinct specification in writing thereof from some person interested in the trust, shall not be personally liable to anybody.

The fiscal agents may select and employ in and about the execution of any of the duties incumbent upon them hereunder, suitable agents, employees, and attorneys and for their acts, defaults, and misconduct, if selected with reasonable care, the fiscal agents shall not be in any wise responsible.

The fiscal agents shall not be chargeable with notice or knowledge of any default on the part of the Republic except upon delivery to them of a distinct specification in writing of such default by some person or persons interested in the trust, whose interest, if required, must be proved to the reasonable satisfaction of the fiscal agents.

The fiscal agents shall not be compelled to do any act or to make any payments hereunder or in respect hereof, unless put in funds for the purpose. Whenever any provision is made herein for the payment of moneys by the fiscal agents at any time, the fiscal agents shall in no event be liable beyond the amount of moneys deposited with them for such purpose.

SEC. 4. The recitals and statements herein and in the bonds and coupons contained shall be taken as statements by the Republic and shall not be considered as made by or as imposing any obligation or liability upon the fiscal agents, nor shall the fiscal agents be held responsible for the legality or validity hereof or of the bonds or coupons or of any supplemental agreement or of any instrument or pledge or conveyance under any provisions of the laws of the Republic or otherwise.

It is expressly understood that the fiscal agents shall not be under any duty or liability in respect to any tax which may be assessed against them or against the owners of the bonds hereby secured in respect of their interests in the pledged revenues referred to in this trust agreement, nor shall the fiscal agents be under any duty to pay or see to the payment of any such tax, or take any notice of the assessment thereof or give any notice thereof to the holders of the bonds secured hereby or to any other person.

SEC. 5. Whenever in this trust agreement the existence of any situation, matter, conclusion of fact of any character, or the sufficiency or validity of any instrument, paper, or proceeding, or of any proof or evidence of any fact shall be prescribed as a condition of, or in any manner with respect to, any action or proceeding on the part of the fiscal agents, or shall be deemed necessary or convenient to be ascertained by the fiscal agents, a certificate of the Republic signed by its Minister of Finance shall in the discretion of the fiscal agents be sufficient evidence of any such fact, situation, matter or conclusion, and shall be complete protection to the fiscal agents for any act or proceeding done or suffered on their part upon the faith thereof; but the fiscal agents may in their reasonable discretion require other evidence.

The fiscal agents or any member of any firm or any officer of any corporation constituting the fiscal agents, may become the owners of bonds and coupons secured hereby or may engage in or be interested in any financial or other transactions with the Republic or may act as depositary, trustee, or agent for any committee or body of holders of bonds or securities, whether or not secured hereby, all with the same rights which they would have if they were not fiscal agents.

SEC. 6. The foregoing provisions of this Article X are intended only for the protection of the fiscal agents, and shall not be construed to affect any discretion or power given to the fiscal agents by any provision of this trust agreement.

#### ARTICLE II.—MONEYS HELD BY FISCAL AGENTS OR TRUSTEE

The Republic irrevocably authorizes and directs the fiscal agents of the trustee, as the case may be, to pay, out of the moneys paid to them as hereinbefore provided, the interest on the bonds to the bearers of the coupons upon presentation and surrender of such coupons and to pay the principal of the bonds at maturity or, upon prior redemption, the principal of, and premium upon, the bonds, to the bearers of the bonds on presentation and surrender thereof, and to apply the moneys in the sinking funds to the redemption of the bonds as hereinabove provided, and to make every such payment without further formal-

ity except as the fiscal agents or the trustee may be advised to be necessary to comply with some law of the State of New York or of the United States of America. Any moneys so paid to the fiscal agents or the trustee which shall not be required for the purpose for which such deposit was made, and any such moneys remaining unclaimed by the holders of such bonds or coupons for six years after the date of the maturity of the bonds or coupons, shall be paid by the fiscal agents or the trustee, as the case may be, to the Republic, and the holders of such bonds or coupons shall thereafter be entitled to look only to the Republic for payment thereof, provided that the fiscal agents or the trustee, before being required to make any such payments may, at the expense of the Republic, cause to be published once a week for not more than four successive weeks in a daily newspaper printed in the English language and published and of general circulation in the borough of Manhattan, in the city and State of New York, notice that said moneys remain unclaimed as aforesaid, and that after a date named therein, unless claimed by those entitled thereto they will be returned to the Republic. If the trustee or the fiscal agents have knowledge of the existence of any event of default or if the Republic is in default in the payment of interest on any of the bonds, any moneys held by them and subject to payment, repayment, or reversion to the Republic need not be so paid or repaid, but may be held by the trustee or the fiscal agents as part of the trust estate until such default or event of default has been remedied or waived pursuant to any of the provisions of article 7 hereof.

**ARTICLE 12.—CONCERNING THE SPECIAL COLLECTIONS AGENCY AND THE PERUVIAN REPRESENTATIVE**

**SECTION 1.** In various portions of this trust agreement certain powers are vested in the "special collections agency." That term shall be construed to mean the individual, firm, company, or corporation designated for the purposes, and with the duties, among others, provided in article 7 hereof, by the trustee in writing addressed to the Republic at its embassy at Washington. In various portions of this trust agreement certain powers are vested in the "Peruvian representative." That term shall be construed to mean the individual, firm, company, or corporation similarly designated by the fiscal agents for the purposes, and with the duties, among others, provided in article 4 hereof. Any special collections agency may, upon 60 days' written notice, delivered to the trustee at its principal office in the city and State of New York, resign its trusts and duties hereunder, and the trustee shall have the right to terminate the appointment of any such special collections agency upon giving 60 days' notice in writing of its intention so to do to the then special collections agency hereunder, and to the Republic. Upon any such resignation or termination of appointment the trustee shall have the right to designate in the manner herein provided for original appointment, a successor or successors for the special collections agency, which shall have resigned or whose appointment shall have been terminated.

The Peruvian representative may upon 60 days' written notice deliver to the fiscal agents at their principal office in the city of New York and State of New York, resign its trust and duties hereunder, and the fiscal agents shall have the right to terminate the appointment of any such Peruvian representative by giving 60 days' written notice in writing of its intention so to do to the then Peruvian representative hereunder and to the Republic. Upon any such termination the fiscal agents shall have the right to designate in the manner herein provided for original appointment, a successor or successors to the Peruvian representative who shall have resigned or whose appointment shall have been terminated.

**SEC. 2.** The Peruvian representative shall give, if requested by the Republic, a bond of a responsible surety company in favor of the Republic in the sum of \$100,000 as surety for the faithful discharge of his or its duties hereunder. The expense of any such bond shall be paid by the Republic.

The special collections agency shall, if requested by the Republic, give a bond of a responsible surety company in favor of the Republic in the sum of \$500,000 as surety for the faithful discharge of its or his duties. The expense of any such bond shall be paid by the Republic.

**SEC. 3.** The Republic agrees to pay to the Peruvian representative as compensation for its services in receiving and remitting deposits for the service of the bonds hereunder a commission of three-eighths of 1 per cent on the same.

deposited with the Peruvian representative pursuant to this trust agreement, and will also pay all the reasonable expenses incurred in good faith by the Peruvian representative in connection with its proper duties under this trust agreement, such commission to be paid upon the deposit with the Peruvian representative of any and all sums hereunder, and such expenses to be paid upon demand.

The Republic agrees to pay to the special collections agency (if any) reasonable compensation for its services, and also to pay all the reasonable expenses, including the cost of the bonds provided for in section 2 of this article 12, incurred in good faith by the special collections agency (if any) in connection with its proper duties under this trust agreement, such compensation and expenses to be retained out of pledged revenues collected by said special collections agency (if any).

Any money received or collected by the Peruvian representative or by the special collections agency under any provision of this trust agreement (anything herein to the contrary notwithstanding) may be treated by them, until they are required to pay out the same conformably herewith, as a general deposit, and they shall not be required to allow any interest thereon to the Republic.

Sec. 4. Neither the Peruvian representative nor the special collections agency shall incur any liability to any body in acting upon any notice, request, resolution, consent, certificate, note, communication, telegram, cablegram, radiogram, bond, document, or paper believed by them or either of them to be genuine and to have been signed by the proper person.

The Peruvian representative and the special collections agency shall be protected in relying upon any translation of a document executed in the Spanish language, if certified to them by the minister of finance of the Republic to be a correct translation of the original; but, in the absence of such certificate, neither the Peruvian representative nor the special collections agency shall be liable for any action or failure to take action by them based upon a mistake in the translation of any such document.

Neither the Peruvian representative nor the special collections agency, save for their wilful default, or for their gross negligence after personal notice and distinct specification in writing thereof from some person interested in the trust, shall be personally liable to anybody.

The Peruvian representative and the special collections agency may select and employ in and about the execution of any of the duties incumbent upon them hereunder, suitable agents, employees, and attorneys, and for their acts, defaults, and misconduct, if selected with reasonable care, the Peruvian representative and the special collections agency shall be in no wise responsible.

Sec. 5. The recitals and statements herein and in the bonds and coupons contained shall be taken as statements by the Republic and shall not be considered as made by or as imposing any obligation or liability upon the Peruvian representative or the special collections agency, nor shall the Peruvian representative or the special collections agency be held responsible for the legality or validity hereof or of said bonds or coupons or of any instrument of further assurance under any provisions of the laws of the Republic or otherwise.

It is expressly understood that the special collections agency shall be under no duty or liability in respect to any tax which may be assessed against them or against the owners of the bonds hereby secured in respect to their interests in the pledged revenues, nor shall the Peruvian representative or the special collections agency be under any duty to pay or see to the payment of any such tax, or take any notice of the assessment thereof or give any notice thereof to the holders of the bonds secured hereby or to any other person.

Neither the Peruvian representative nor the special collections agency shall be chargeable with notice or knowledge of any default on the part of the Republic except upon delivery to them of a distinct specification in writing of such default by some person or persons interested in the trust, whose interest, if required, must be proved to the reasonable satisfaction of the Peruvian representative and the special collections agency.

Sec. 6. Whenever in this trust agreement the existence of any situation, matter, conclusion, or fact of any character, or the sufficiency or validity of any instrument, paper, or proceeding, or of any proof or evidence of any fact shall be prescribed as a condition of or in any manner with respect to any action or proceeding on the part of the Peruvian representatives or the special

collections agency or shall be deemed necessary or convenient to be ascertained by the special collections agency, a certificate of the minister of finance of the Republic shall, in the discretion of the Peruvian representative, or the special collections agency, be sufficient evidence of any such fact, situation, matter, or conclusion, or of the sufficiency or validity of any such instrument, paper, or proceeding, and shall be complete protection to the Peruvian representative, or the special collections agency for any act or proceeding done or suffered on their part upon the faith thereof; but the Peruvian representative and the special collections agency may in their reasonable discretion require other evidence.

The Peruvian representative, or the special collections agency, or any member of any firm or officer of any corporation constituting the Peruvian representative, or the special collections agency, may become the owner of bonds and coupons secured hereby or may engage in or be interested in any financial or other transaction with the Republic or may act as depository, trustee, or agent for any committee or body of holders of bonds or securities, whether or not secured hereby, all with the same rights which they would have if they were not such Peruvian representative, such special collections agency, such members, or officers.

SEC. 7. The foregoing provisions of this article 12 are intended only for the protection of the Peruvian representative and the special collections agency, and shall not be construed to affect any discretion or power by any provision of this agreement given to the Peruvian representative or to the special collections agency.

#### ARTICLE 13.—DEFEASANCE CLAUSE

If the principal of, and premium and interest upon, all the bonds and all costs, charges, and expenses incurred by the trustee and the fiscal agents in relation thereto and all other sums payable hereunder by the Republic shall be well and truly paid at the times and in the manner in the bonds and herein expressed, according to the tenor and effect thereof, this trust agreement shall cease and determine, and upon proof being given to the reasonable satisfaction of the trustee that all such payments have been made, or if at the maturity of the bonds, whether by expiration of time or by call for redemption, the Republic shall deposit with the fiscal agents for the benefit of the holder or holders thereof the amount of the principal of, and premium upon, all the bonds and all the coupons then outstanding, together with all costs, charges, and expenses incurred by the trustee, the fiscal agents, the Peruvian representative and special collections agency (if any), and all other sums payable hereunder by the Republic, the trustee shall, upon the written request of the Republic, cancel and satisfy this trust agreement and all agreements supplemental to this trust agreement.

#### ARTICLE 14.—SUNDRY PROVISIONS

SECTION 1. Whenever used in this trust agreement the word "trustee" shall be held and construed to mean Central Union Trust Co. of New York, or its successor hereunder for the time being; the words "fiscal agents" to mean J. & W. Seligman & Co., or their successor hereunder for the time being; the words "Peruvian representative" to mean the individual, firm, company, or corporation constituting for the time being the Peruvian representative, as hereinbefore defined in section 1 of article 12 hereof; the words "special collections agency" to mean the individual, firm, company, or corporation constituting for the time being the special collections agency, as hereinbefore defined in section 1 of article 12 hereof; the words "fiscal agents," "bond," "holder" and "bondholder," respectively, to include the plural as well as the singular number; the word "holder" to mean the bearer of any bond or of any coupons, and the word "coupons" to refer to the interest coupons attached to the bonds; and the word "person" used with reference to a bondholder to include firms, companies, or corporations owning any of said bonds.

SEC. 2. Payments of any and all sums of money pursuant to any of the provisions of this trust agreement shall be made in the city and State of New York in gold coin of the United States of America of or equal to the standard of weight and fineness existing on March 1, 1927, unless the contrary is clearly expressed or otherwise appears from the context of such provisions.

SEC. 3. This trust agreement may be executed in both the English language and the Spanish language, but the English text thereof shall govern. It may be executed in one or more counterparts, each of which shall be deemed to be an original.

SEC. 4. In case any one or more of the covenants and agreements contained in this trust agreement or in the bonds should be invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining covenants and agreements contained herein and in the bonds shall be in no wise affected, prejudiced, or disturbed thereby.

SEC. 5. This trust agreement is entered into in the city of New York, in the State of New York, in the United States of America, and shall be deemed to be a contract executed under the laws of New York, United States of America, and the provisions thereof shall be interpreted and construed in accordance with the laws of the State of New York, as though it were to be performed wholly within the territorial limits of said State.

SEC. 6. Wherever reference is herein made to the Republic, it shall be deemed to mean and include any successor government which may at any time during the life of this trust agreement govern the territory, or the greater part thereof, now embraced within the territorial limits of the Republic.

In witness whereof Republica del Peru has caused this trust agreement to be signed in its name by his excellency, the Hon. Hernan Velarde, the ambassador of the Republic to the United States of America, or other representative of the Republic thereunto duly empowered, and Central Union Trust Co. of New York has caused this trust agreement to be executed in its corporate name by its president or an assistant vice president and its corporate seal to be hereunto affixed and attested by its secretary or an assistant secretary as of the day and year first above written.

REPUBLICA DEL PERU,  
By HERNAN VELARDE.

Signed and delivered by Republica del Peru in the presence of:

PHILIP E. BRADLEY.  
J. MILLER WALKER.

CENTRAL UNION TRUST CO. OF NEW YORK,  
By F. WOLFE, *Assistant Vice President.*

Attest:  
[SEAL.]

J. T. HARRIGAN, *Assistant Secretary.*

Signed, sealed, and delivered by Central Union Trust Co. of New York in the presence of:

F. E. EGLY.  
R. P. MCGUIRK.

STATE OF NEW YORK,  
*County of New York, ss:*

On the 6th day of April, in the year 1927, before me personally came his excellency the Hon. Hernan Velarde, to me known and known to me to be the ambassador of Republica del Peru to the United States of America, and to be the person who signed the above instrument on behalf of Republica del Peru, and he acknowledged to me that he had executed the above instrument as the act of the Republica del Peru.

Witness my hand and notarial seal this 6th day of April, 1927.

[NOTARIAL SEAL.]

T. J. HAUGH,  
*Notary Public, Queens County No. 725.*

Certificate filed in New York County No. 379. New York registered No. 9317. Term expires March 30, 1929.

STATE OF NEW YORK,  
*County of New York, ss:*

On the 6th day of April, in the year 1927, before me personally came F. Wolfe, to me known, who being by me duly sworn, did depose and say:

That he resides in Merrick, Long Island; that he is an assistant vice president of Central Union Trust Co. of New York, the corporation described in and which executed the above instrument; that he knows the seal of said corpora-

tion; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of trustees of said corporation; and that he signed his name thereto by like order.

Witness my hand and notarial seal this 6th day of April, 1927.

[NOTARIAL SEAL.]

T. J. HAUGH,

Notary Public, Queens County No. 725.

Certificate filed in New York County No. 379. New York register No. 9317.  
Term expires March 30, 1929.

Exhibit A.—Table of amortization

	Semiannual payment	Interest payment	Applicable to sinking fund	Principal amount of bonds to be retired	Bonds outstanding
Sept. 1, 1927	600,000	525,000	75,000	71,000	14,929,000
Mar. 1, 1928	600,000	522,515	77,485	74,000	14,855,000
Sept. 1, 1928	600,000	519,925	80,075	76,000	14,779,000
Mar. 1, 1929	600,000	517,265	82,735	79,000	14,700,000
Sept. 1, 1929	600,000	514,500	85,500	81,500	14,618,500
Mar. 1, 1930	600,000	511,648	88,352	84,000	14,534,500
Sept. 1, 1930	600,000	508,708	91,292	87,000	14,447,500
Mar. 1, 1931	600,000	505,663	94,337	90,000	14,357,500
Sept. 1, 1931	600,000	502,513	97,487	92,500	14,265,000
Mar. 1, 1932	600,000	499,275	100,725	95,000	14,169,000
Sept. 1, 1932	600,000	495,915	104,065	99,500	14,069,500
Mar. 1, 1933	600,000	492,433	107,507	102,000	13,967,500
Sept. 1, 1933	600,000	488,863	111,137	106,000	13,861,500
Mar. 1, 1934	600,000	485,153	114,847	109,500	13,752,000
Sept. 1, 1934	600,000	481,320	118,650	113,000	13,639,000
Mar. 1, 1935	600,000	477,365	122,635	117,000	13,522,000
Sept. 1, 1935	600,000	473,270	126,730	120,500	13,401,500
Mar. 1, 1936	600,000	469,053	130,947	124,500	13,277,000
Sept. 1, 1936	600,000	464,695	135,303	129,000	13,148,000
Mar. 1, 1937	600,000	460,180	139,820	133,000	13,015,000
Sept. 1, 1937	600,000	455,525	144,475	138,000	12,877,000
Mar. 1, 1938	600,000	450,695	149,305	142,000	12,735,000
Sept. 1, 1938	600,000	445,725	154,275	147,000	12,588,000
Mar. 1, 1939	600,000	440,580	159,420	152,000	12,436,000
Sept. 1, 1939	600,000	435,260	164,740	156,500	12,279,500
Mar. 1, 1940	600,000	429,783	170,217	162,500	12,117,000
Sept. 1, 1940	600,000	424,095	175,905	167,500	11,949,500
Mar. 1, 1941	600,000	418,233	181,767	173,000	11,776,500
Sept. 1, 1941	600,000	412,178	187,822	179,000	11,597,500
Mar. 1, 1942	600,000	405,913	194,067	184,500	11,413,000
Sept. 1, 1942	600,000	399,455	200,545	191,000	11,222,000
Mar. 1, 1943	600,000	392,770	207,230	197,500	11,024,500
Sept. 1, 1943	600,000	385,858	214,142	204,000	10,820,500
Mar. 1, 1944	600,000	378,718	221,282	210,500	10,609,000
Sept. 1, 1944	600,000	371,350	228,650	218,000	10,392,000
Mar. 1, 1945	600,000	363,720	236,280	225,000	10,167,000
Sept. 1, 1945	600,000	355,845	244,155	232,500	9,934,500
Mar. 1, 1946	600,000	347,708	252,292	240,500	9,694,000
Sept. 1, 1946	600,000	339,290	260,710	248,500	9,446,000
Mar. 1, 1947	600,000	330,610	269,390	256,500	9,189,500
Sept. 1, 1947	600,000	321,633	278,367	265,000	8,924,500
Mar. 1, 1948	600,000	312,358	287,642	274,000	8,650,500
Sept. 1, 1948	600,000	302,783	297,222	283,500	8,367,000
Mar. 1, 1949	600,000	292,845	307,155	292,500	8,074,500
Sept. 1, 1949	600,000	282,608	317,392	302,000	7,772,500
Mar. 1, 1950	600,000	272,093	327,962	312,500	7,460,000
Sept. 1, 1950	600,000	261,100	338,900	322,500	7,137,500
Mar. 1, 1951	600,000	249,813	350,187	333,500	6,804,000
Sept. 1, 1951	600,000	238,140	361,860	345,000	6,459,000
Mar. 1, 1952	600,000	226,065	373,935	356,000	6,103,000
Sept. 1, 1952	600,000	213,605	386,395	368,000	5,735,000
Mar. 1, 1953	600,000	200,725	399,275	380,000	5,355,000
Sept. 1, 1953	600,000	187,425	412,575	393,000	4,962,000
Mar. 1, 1954	600,000	173,670	426,330	406,000	4,556,000
Sept. 1, 1954	600,000	159,460	440,540	419,500	4,136,500
Mar. 1, 1955	600,000	144,778	455,222	434,000	3,702,500
Sept. 1, 1955	600,000	129,588	470,412	448,000	3,254,500
Mar. 1, 1956	600,000	113,908	486,092	462,500	2,792,000
Sept. 1, 1956	600,000	97,720	502,260	478,500	2,313,500
Mar. 1, 1957	600,000	80,973	519,027	494,500	1,819,500
Sept. 1, 1957	600,000	63,665	536,335	510,500	1,308,500
Mar. 1, 1958	600,000	45,798	554,202	528,000	780,500
Sept. 1, 1958	600,000	27,318	572,682	545,500	235,000
Mar. 1, 1959	600,000	8,225	591,775	235,000	

## EXHIBIT No. 7

**BOND PURCHASE AGREEMENT BETWEEN REPUBLICA DEL PERU (REPUBLIC OF PERU) AND J. & W. SELIGMAN & CO. AND THE NATIONAL CITY CO., DATED DECEMBER 19, 1927—\$50,000,000 PERUVIAN NATIONAL LOAN, 6 PER CENT EXTERNAL SINKING FUND GOLD BONDS, FIRST SERIES**

Agreement, dated December 19, 1927, between Republica del Peru (Republic of Peru), hereinafter called the Republic, acting by his excellency, Senor Don Manuel G. Masias, the Minister of Finance of the Republic, thereunto duly authorized by supreme resolution dated December 18, 1927, issued with the approval of the council of ministers, and J. & W. Seligman & Co., a copartnership of the city and State of New York, United States of America, acting by Broderick Haskell, jr., thereunto duly authorized, and the National City Co., a corporation duly organized and existing under the laws of the State of New York, United States of America, acting by Claude W. Calvin, thereunto duly authorized, hereinafter collectively called the bankers.

The Republic makes the following representations:

The Republic has entered into a fiscal agency and loan agreement, dated as of December 1, 1927, with J. & W. Seligman & Co. and The National City Bank of New York (hereinafter called the fiscal agency and loan agreement), a true and correct copy of which is annexed hereto, made a part hereof, and marked "Exhibit A," providing for the creation of an external loan to be known as the Peruvian national loan (hereinafter called the loan) to consist of bonds to be issued in series, and for the issue of a first series of the bonds of the loan limited to the principal amount of \$50,000,000 in gold coin of the United States of America, the bonds of said first series to be known as the Peruvian national loan 6 per cent external sinking fund gold bonds, first series (hereinafter called the first series bonds), on the terms and conditions in the fiscal agency and loan agreement set forth.

The Republic desires to issue and sell to the bankers and the bankers desire to purchase from the Republic said \$50,000,000, principal amount, of first series bonds upon the terms and conditions hereinafter in this agreement set forth.

Now, therefore, this agreement witnesseth that, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed, and do hereby agree, as follows:

## ARTICLE I

SECTION 1. Subject to all the terms and conditions of this agreement, the Republic agrees to sell and deliver to the bankers and the bankers agree to purchase from the Republic and pay for, all said \$50,000,000, principal amount of first-series bonds, to be issued under and in accordance with said fiscal agency and loan agreement, at the price of 86 per cent of the principal amount thereof plus accrued interest to the date of delivery of the first series bonds to the bankers or to the date of the issue of interim receipts pursuant to the provisions of this agreement, whichever date shall be earlier, plus one-half of the amount (if any) by which the price at which the first-series bonds are offered by the bankers for public subscription, exclusive of accrued interest, exceeds 92½ per cent of the principal amount thereof. Delivery of and payment for the \$50,000,000, principal amount, of first series bonds shall be made at the office of J. & W. Seligman & Co., in the Borough of Manhattan, in the city and State of New York, on a date to be specified by the bankers in a cable notice to the Republic to be sent at least three days previous to the date so specified and which specified date shall be not less than 10 days nor more than 20 days after the date on which the bankers' advertisement publicly offering the first-series bonds for subscription appears in a newspaper in the city of New York, provided that by mutual agreement between the Republic and the bankers the time for the delivery of and payment for said first series bonds may be advanced to such earlier date or extended to such later date as may be fixed by such agreement. The bankers agree, subject to all the terms and conditions of this agreement, to make such public offering on or before January 31, 1928, provided, however, that the bankers may make such public offering on a "when, as and if issued and received by the bankers and subject to the approval of Peruvian and American counsel" basis.

SEC. 2. Delivery of the first-series bonds shall be made either in the form of one temporary bond in the denomination of \$50,000,000, or if the bankers so

request, in the form of temporary bonds in such denominations and such proportions of each denomination as the bankers may request, and in either case exchangeable for definitive engraved first-series bonds when ready for delivery. First-series bonds in definitive engraved form shall be executed and be in such form as to comply with the listing requirements of the New York Stock Exchange.

Payment for the first-series bonds shall be made by crediting the amount of the purchase price therefor (less an amount estimated by the bankers to be sufficient to cover the expenses agreed to be paid by the Republic as hereinafter in section 4 of Article III hereof provided) with the fiscal agents of the Republic, appointed under said fiscal agency and loan agreement, for the account of the Republic. The Republic agrees to instruct the fiscal agents to retain out of the amount so credited to the account of the Republic, an amount equal to the monthly payments for interest and amortization on the first-series bonds accrued thereon from December 1, 1927, to the date of said deposit and to apply such moneys to the service of the first-series bonds in accordance with the provisions of the fiscal agency and loan agreement. The balance so credited to the Republic shall be held by the fiscal agents and disposed of by them from time to time as provided in section 8 of Article V of the fiscal agency and loan agreement.

SEC. 3. If the first-series bond or bonds in temporary form are not delivered on the date specified in such notice by the bankers in accordance with section 1 of this article and the bankers shall extend the time for delivery of the first-series bond or bonds in temporary form, the bankers may issue or cause to be issued interim receipts exchangeable for first-series bonds, in temporary or definitive form, when, as, and if issued and received by the bankers and subject to the approval of their Peruvian and American counsel. Said interim receipts shall also provide that if for any reason the Republic shall fail to deliver the temporary first-series bond or bonds within the period of any extended time for such delivery granted by the bankers in accordance with the terms of this agreement, the holders of the interim receipts shall be entitled to receive a refund of the retail purchase price of the first-series bonds represented thereby (including the accrued interest paid as a part of such purchase price) with interest at the rate of 6 per cent per annum on the principal amount of the first-series bonds represented thereby from the date of the issue of the interim receipts until the date fixed for such refund; and in case such interim receipts are issued and the Republic fails to deliver the first-series bonds within the period of any extended time granted by the bankers for the delivery of first-series bonds hereunder, the Republic hereby covenants and agrees to pay to the bankers on demand, for account of the holders of such interim receipts, the full amount of such interest.

If the Republic shall deliver one temporary first-series bond in denomination of \$50,000,000, the bankers may issue or cause to be issued interim certificates representing pro rata interests in such temporary first-series bond exchangeable for definitive engraved first-series bonds when prepared and exchanged for said temporary first-series bond.

## ARTICLE II

SECTION 1. The obligation of the bankers to purchase and pay for the \$50,000,000, principal amount, of first-series bonds as provided in Article I of this agreement is subject to the conditions that on or before the date for the delivery of and payment for the first-series bonds:

(a) All acts, deeds, and proceedings required by the constitution and laws of the Republic and by the provisions of said fiscal agency and loan agreement precedent to the issue of the first-series bonds and to render said first-series bonds, said fiscal agency and loan agreement and this agreement, the valid and binding obligations of the Republic in accordance with their terms shall have been performed, shall have happened, and shall have been taken, and the Republic shall have delivered or caused to be delivered to the designated representative of the bankers in Peru duly authenticated copies of all laws and decrees or other instruments authorizing the execution of this agreement and of said fiscal agency and loan agreement and the creation, issue, and sale of the first-series bonds;

(b) The bankers shall have received an opinion of their American counsel and of their Peruvian counsel (in form satisfactory to their American counsel) approving the proceedings of the Republic taken to authorize the execution of

this agreement and of said fiscal agency and loan agreement, the creation of the Peruvian national loan and the creation, issue, and sale of the first-series bonds in accordance with the terms of said fiscal agency and loan agreement and this agreement, to entrust to the Caja de Depositos y Consignaciones the collection or deposit of revenues pursuant to law No. 5931 of the Republic, and in performance of all other matters to be performed precedent to the issue of the first series bonds, as provided in said fiscal agency and loan agreement, and approving the sufficiency of all action taken for said purposes, and stating in substance that said fiscal agency and loan agreement is the valid and binding obligation of the Republic in accordance with its terms and that all the first-series bonds and the coupons appurtenant thereto, in both temporary and definitive form, when executed and delivered in accordance therewith, will be the valid and binding obligations of the Republic in the hands of holders of any citizenship or residence whatsoever, in accordance with their terms, and that this agreement, when executed and delivered as herein provided, will be the valid and binding obligation of the Republic in accordance with its terms, and approving all other legal details in connection with the creation of the loan and the issue and sale of the first series bonds:

(c) The Republic and the reserve bank shall have entered into an agreement in form satisfactory to the bankers' counsel to cooperate fully in stabilizing the Peruvian currency at approximately the level of exchange existing at the date of this agreement until such time as the fiscal agents and the Republic shall agree upon a plan of stabilization;

(d) The Republic shall have outlined fully for the bankers' information its public works program for the 3-year period commencing on the date of this agreement with all such supporting data as the bankers may request.

SEC. 2. The bankers shall have the absolute right at any time to terminate their obligations to make a public offering of the first-series bonds and to purchase and pay for the first-series bonds under this agreement, by written or cabled notice to the Republic, if, in their opinion, political, financial, or economic conditions render it inadvisable to offer the first-series bonds to the public in the United States of America or in Europe. If the obligations of the bankers shall be terminated in accordance with the right of termination reserved in this section, the Republic covenants that it will forthwith pay or reimburse the bankers for all expenses of the character specified in section 4 of article 3 hereof to be paid by it, incurred to the date of such termination.

SEC. 3. If the Republic shall fail or be unable to make delivery of the first series bonds within the time and under the conditions specified in this agreement, including any extended time which may be granted by the bankers for such delivery:

(a) The obligation of the bankers to take and pay for the first series bonds may, at their option, be terminated by written or cabled notice to the Republic, and thereupon the obligation of the bankers to take and pay for the first series bonds, and the obligation of the Republic to deliver the same under the terms of this agreement shall cease and terminate; and

(b) The Republic shall forthwith, upon receipt of such notice of termination, pay to the bankers the sum of \$200,000 in cash to reimburse the bankers for their expenses incurred in connection with the matters covered in this agreement and as compensation for their services rendered to the Republic to the date of such termination.

### ARTICLE 3

SECTION 1. As soon as practicable after the execution of this agreement the Republic will deliver or cause to be delivered to the bankers a prospectus letter or letters signed by the Minister of Finance of the Republic or other representative of the Republic satisfactory to the bankers, containing such information concerning the resources and financial condition of the Republic, including its debts, income and expenditures, financial administration and such other matters as the bankers may request, and in such form as may be satisfactory to the bankers' counsel, for use in connection with the offering or sale of such first-series bonds in the United States of America and elsewhere, and the prompt receipt by the bankers of such prospectus letter or letters shall be a condition precedent to the obligation of the bankers to make the public offering of the first series bonds as in article 1 of this agreement provided.

SEC. 2. If the sale and purchase of the first-series bonds shall be consummated as herein provided, the Republic will, at the request of the bankers, and at its own expense, make application to list all the first-series bonds purchased

by the bankers upon all the first-series bonds purchased by the bankers upon the New York Stock Exchange and such principal European stock exchanges as the bankers may request, and the Republic will furnish when and as required such information and data as may be necessary for such purpose.

SEC. 3. The bankers, in their sole discretion, may choose and have in the purchase of the first-series bonds and in any offering thereof to the public such associates as they may determine.

SEC. 4. The Republic will pay the cost of printing this agreement and the fiscal agency and loan agreement, the cost of printing or engraving, executing, and authenticating the temporary and definitive first-series bonds and the interim receipts or interim certificates which may be issued (if any), the expenses of exchanging interim receipt or interim certificates for temporary or definitive first-series bonds or for cash, the expenses of exchanging the temporary first-series bonds for the definitive first-series bonds and the expense of listing the first series bonds on the New York Stock Exchange and the principal European stock exchanges on which the first-series bonds may be listed. The Republic will also pay all stamp taxes and other duties and assessments, if any, to which under the laws of the Republic or of any foreign country in which any of the first series bonds are issued by the Republic or sold by the bankers or their associates, or of any political subdivision or authority thereof or therein, this agreement, the fiscal agency and loan agreement, the first-series bonds, temporary or definitive, or the interim receipts or the interim certificates may be subject. The Republic will also reimburse the bankers for all their expenses, exclusive of marketing expenses, in connection with their negotiations with the Republic for the creation of the Peruvian national loan and the sale to them of the first-series bonds, including their cable expenses and the fees and disbursements of their Peruvian and American counsel, provided that the amount of such reimbursement as provided in this sentence shall not exceed one-half of 1 per cent of the total principal amount of the first-series bonds.

SEC. 5. The Republic agrees that if the sale and purchase of the first-series bonds shall be consummated as in this agreement provided, it will not offer for sale any issue of bonds or notes, or permit any issue of bonds or notes guaranteed by it to be offered for sale, in the United States of America, in Canada, or in Europe, within a period of 12 months after the date of the public offering of the first-series bonds without the written consent of the bankers.

SEC. 6. In consideration of the purchase of the first-series bonds and of the services rendered and to be rendered by the bankers pursuant to this agreement, the Republic hereby grants to the bankers a preferential right to purchase the bonds of any and all additional series of the Peruvian national loan which may be issued during a period of three years from the date of issue of the first-series bonds, on the most favorable terms to the bankers which the Republic is willing to accept from any other purchaser or purchasers, and the Republic further covenants that it will not within such 3-year period issue or offer for sale any bonds of any additional series of the Peruvian national loan without first giving to the bankers a 45-day option to purchase such bonds on terms at least as favorable to the bankers as the Republic is willing to accept from any other purchaser or purchasers.

#### ARTICLE 4

SECTION 1. Any notice, request, or instruction required or permitted to be given hereunder by one party to the other shall be deemed sufficient if given in the manner expressly provided herein, or, if no manner be expressly provided, in English in writing, or by cable confirmed in writing, as follows:

(a) If from the bankers to the Republic, over the signature of J. & W. Seligman & Co. and addressed to the Minister of Finance of the Republic at Lima, Peru; and

(b) If from the Republic to the bankers, over the signature of the Minister of Finance of the Republic delivered to J. & W. Seligman & Co., at No. 54 Wall Street, New York, N. Y., U. S. A.

SEC. 2. Any reference in this agreement to the bankers shall be deemed to mean and include any successor firm, association, or partnership continuing the respective businesses of J. & W. Seligman & Co. and the National City Co. The bankers may associate with themselves in the purchase of the first series bonds such other banks or banking firms as they may desire. Any reference in this agreement to the Republic shall be taken to mean and include any successor sovereign government which may at any time during the life of this agreement

govern the major portion of the territory now embraced within the territorial boundaries of the Republic.

SEC. 3. This agreement shall be executed in the English language and may be executed in one or more counterparts, each of which shall be deemed to be an original. There shall be attached to each executed counterpart a duly authenticated copy of the supreme resolution hereinabove mentioned.

This agreement shall be interpreted and construed in accordance with the laws of the State of New York, in the United States of America, as though it had been made and were to be performed wholly within the territorial limits of said State.

IN WITNESS WHEREOF the Republica del Peru (Republic of Peru) has caused this agreement to be executed on its behalf in three counterparts by his excellency Señor Don Manuel G. Masias, the Minister of Finance of the Republic, thereunto duly authorized, as aforesaid, and J. & W. Seligman & Co. has caused this agreement to be signed on its behalf in a like number of counterparts by Broderick Haskell, Jr., its attorney in fact, thereunto duly authorized, and the National City Co. has caused this agreement to be executed on its behalf in a like number of counterparts by Claude W. Calvin, its attorney in fact, thereunto duly authorized, all as of the day and year first above written.

REPUBLIC DEL PERU,  
By M. G. MASIAS,  
*Minister of Finance.*  
J. & W. SELIGMAN & Co.,  
By BRODERICK HASKELL, Jr.,  
*Attorney in Fact.*  
THE NATIONAL CITY Co.,  
By CLAUDE W. CALVIN,  
*Attorney in Fact.*

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EXHIBIT No. 8

AGREEMENT BETWEEN REPUBLICA DEL PERU (REPUBLIC OF PERU) AND J. & W. SELIGMAN & CO. AND THE NATIONAL CITY BANK OF NEW YORK, DATED AS OF DECEMBER 1, 1927—PERUVIAN NATIONAL LOAN FISCAL AGENCY AND LOAN AGREEMENT

Agreement, dated as of December 1, 1927, between Republica del Peru (Republic of Peru), hereinafter called the Republic, acting by his excellency, Senor Don Manuel G. Masias, the Minister of Finance of the Republic, thereunto duly authorized by supreme resolution dated December 18, 1927, issued with the approval of the council of ministers, and J. & W. Seligman & Co., a copartnership of the city and State of New York, United States of America, acting by Broderick Haskell, Jr., thereunto duly authorized, and The National City Bank of New York, a corporation duly organized and existing under the national banking laws of the United States of America, acting by Claude W. Calvin, thereunto duly authorized, hereinafter collectively called the fiscal agents.

The Republic makes the following representations:

(a) The Republic has outstanding at the date hereof external loans and obligations in the aggregate principal amount of approximately \$61,768,321, currency of the United States of America (the principal amount of loans and obligations payable in other currencies having been converted into dollars for the purpose of this computation at approximately the current rates of exchange), some or all of which loans and obligations are secured by liens or charges upon various of the revenues and assets of the Republic. The gross amount of the annual charges for the service of all such external loans and obligations at the date hereof is approximately \$6,620,417, similarly computed.

(b) The Republic has outstanding at the date hereof internal loans or obligations in the aggregate principal amount of approximately 3,927,064 Peruvian pounds, some or all of which are secured by liens or charges on various of the revenues of the Republic. The gross amount of the annual charges for the service of all such internal loans and obligations at the date hereof is approximately 364,613 Peruvian pounds.

(c) There are outstanding loans or obligations guaranteed by the Republic, or on which the Republic is in some manner contingently liable, in the aggregate

principal amount of \$1,500,000, currency of the United States of America (the principal amount of loans and obligations payable in other currencies having been converted into dollars for the purpose of this computation at approximately the current rates of exchange).

(d) The Republic desires (1) to refund all its existing external secured loans and obligations, (2) to stabilize the value of the Peruvian national currency, (3) to provide funds to subscribe for shares which it may be eligible to hold in the Mortgage Bank of Peru (Banco Hipotecario del Peru), which the Republic proposes immediately to establish by law, (4) to provide for its capital investment program, including the improvement and construction of the Callao harbor dock and shipping facilities, and (5) to provide for its other present and future governmental requirements; and in order to provide funds for such purposes the Republic has determined to create, and by law No. 5930, enacted December 17, 1927, and promulgated December 18, 1927, has duly and validly authorized the creation of an external loan, to be known as the Peruvian national loan and to consist of bonds which shall be issued from time to time in series.

(e) In order to provide for its immediate requirements for the purposes hereinafore in paragraph (d) referred to, and to repay the sums advanced or to be advanced and otherwise payable in respect of the short-term credit granted to and availed of by the Republic under an agreement dated as of December 1, 1927, between the Republic and the bankers, which moneys have been, or will be, largely used for such purposes, the Republic desires presently to issue a first series of the bonds of the loan limited to \$50,000,000, in gold coin of the United States of America, aggregate principal amount, the bonds of which first series shall be known as Peruvian national loan, 6 per cent external sinking-fund gold bonds, first series.

Now, therefore, this agreement witnesseth that, pursuant to said law No. 5930 and in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed, and do hereby agree as follows:

**ARTICLE 1—ISSUE, AUTHENTICATION AND DELIVERY OF BONDS—CREATION OF FIRST SERIES BONDS**

**SECTION 1.** The Republic will forthwith, in conformity with its constitution and laws, create an external loan to be known as the Peruvian national loan (herein called the loan), to consist of bonds (herein called the bonds), which shall be issued in series as hereinafter provided. The bonds of the loan shall be issued in accordance with law No. 5930 of the Republic, enacted December 17, 1927, and promulgated December 18, 1927.

**Sec. 2.** From time to time and at any time after the execution of this agreement, the Republic may execute a first series of the bonds, to the aggregate principal amount of \$50,000,000, and deliver the same to the fiscal agents, who shall thereupon authenticate the same as hereinafter provided and deliver them to or upon the order of the Republic. The bonds of said first series shall be known as Peruvian national loan, 6 per cent external sinking-fund gold bonds, first series (hereinafter called the first series). The aggregate principal amount of first series bonds issued and outstanding under this agreement shall not at any time exceed the principal amount of \$50,000,000, except as provided in section 11 of this article.

**Sec. 3.** From time to time the Republic may issue, and the fiscal agents may authenticate and deliver, or cause to be authenticated and delivered, additional series of bonds of the loan, subject, however, to all the terms, restrictions, and covenants relating to such additional series of bonds in this agreement contained.

**Sec. 4.** The first-series bonds shall be in coupon form, payable to bearer, shall be dated December 1, 1927, shall mature December 1, 1960, and shall bear interest from December 1, 1927, at the rate of 6 per cent per annum, payable on June 1 and December 1 in each year. First-series bonds shall be of the denominations of \$1,000 and \$500 and, if the fiscal agents so request prior to the time of issue thereof, in other denominations, and in such amounts of each denomination as the fiscal agents may so request; and such first-series bonds of any or all such denominations may be made interchangeable for first-series bonds of any or all the other such denominations, as the fiscal agents may so request and as shall be specified in such first-series bonds.

**Sec. 5.** The principal of, and interest upon, the first-series bonds shall be payable, at the option of the holders, in the borough of Manhattan, in the city

and State of New York, United States of America, at the principal office of either of the fiscal agents, in gold coin of the United States of America, of or equal to the standard of weight and fineness existing December 1, 1927: *Provided, however,* That the fiscal agents may arrange, and the bonds may specify, that first-series bonds and the interest coupons annexed thereto are payable alternatively, at the option of the holders, in such other place or places, at the office or offices in such place or places of paying agents (appointed as hereinafter provided), in such other foreign currency or currencies as the fiscal agent shall so arrange, at the bankers' buying rate for dollar sight exchange on the city of New York at the time of presentation for payment in such place or places.

SEC. 6. The principal of, and interest upon, all the first series bonds, shall be paid in time of war as well as in time of peace and irrespectively of the citizenship or residence of the holders thereof, and shall be paid free from and without deduction or diminution for any taxes, assessments, charges, levies, or duties of any nature, now or at any time hereafter imposed, levied, or assessed by the Republic, or by any province, district, municipality, or other taxing authority thereof or therein.

SEC. 7. The text of the definitive engraved first series bonds and of the coupons to be annexed thereto and of the certificate of authentication to be indorsed on the first series bonds shall be substantially as set forth in Exhibit A annexed hereto and made a part hereof, with such variations, additions, or omissions consistent with the provisions of this agreement as may be required by the fiscal agents prior to the issue thereof. The text of the definitive engraved bonds of each additional series of the loan and of the coupons to be annexed thereto and of the certificate of authentication to be indorsed on such bonds shall, so far as appropriate, be substantially similar to the text of the first series bonds set forth in said Exhibit A, with such variations, additions, or omissions as to series designations, denominations, currency, or currencies in which payable, manner and place or places of payment, language or languages in which prepared, and otherwise, not inconsistent with the provisions of this agreement, as may be required by the fiscal agents.

All bonds of the loan in definitive or engraved form shall bear the facsimile signature of the present Minister of Finance of the Republic or of any future Minister of Finance of the Republic or other duly designated representative of the Republic satisfactory to the fiscal agents, shall be manually signed on behalf of the Republic by its ambassador to the United States of America or other representative of the Republic thereunto duly authorized and shall bear a facsimile of the coat of arms of the Republic as a seal of the Republic. The bonds of each series of the loan of each denomination shall be consecutively numbered in any usual manner approved by the fiscal agents. The coupons to be annexed to each of the bonds of the loan in definitive engraved form shall bear the facsimile signature of the present Minister of Finance of the Republic or of any future Minister of Finance of the Republic, or other duly designated representative of the Republic satisfactory to the fiscal agents.

SEC. 8. Only such bonds of the loan, whether in temporary or definitive form, as shall bear indorsed thereon a certificate of authentication substantially of the tenor set forth in Exhibit A hereto attached, with appropriate variations for the respective series, executed by the fiscal agents or one of them, as authenticating agent (or, in the case of bonds issued and made payable in a currency other than United States of America dollars, executed by the fiscal agents or one of them, or by one of the paying agents appointed as hereinafter provided for the country in the currency of which such bond is payable, as authenticating agent), shall be valid or become obligatory for any purpose or entitled to the benefits of this agreement, and such certificate shall be conclusive and the only evidence that any such bond has been duly issued hereunder and that the holder is entitled to the benefits of this agreement.

SEC. 9. Pending the preparation of definitive engraved bonds of the loan of any series one or more temporary typewritten, lithographed, or printed bonds similar in tenor, but with such omissions, insertions, and variations as may be appropriate and of such denomination or denominations as may be convenient, payable in one or more foreign currencies, and at one or more places, and with or without coupons, as may be required, may be issued, and, if issued, shall be exchangeable when ready for delivery without expense to the holders for a like aggregate principal amount of definitive engraved bonds of the same series payable in the same currency or currencies. Bonds in temporary form shall be manually signed on behalf of the Republic by its Minister of Finance,

or by its ambassador to the United States of America, or by any other appropriate representative of the Republic thereunto duly authorized, satisfactory to the fiscal agents, and all bonds of the loan in temporary form shall be impressed with the coat of arms of the Republic as a seal of the Republic, or with the seal of the embassy of the Republic in Washington or with the seal of some other appropriate embassy or legation of the Republic, or bear a facsimile of any such seal; all as shall be found convenient, and be agreed upon by the Republic and the fiscal agents. The coupon or coupons, if any, annexed to bonds in temporary form, shall bear the facsimile signature of the Minister of Finance of the Republic or other representative of the Republic thereunto duly authorized satisfactory to the fiscal agents.

Sec. 10. Whenever any bond or bonds of the loan expressed to be interchangeable for a bond or bonds of the loan of the same series of another denomination or denominations of the same issue shall be presented for exchange, with all unmatured coupons attached, the Republic shall execute, and, upon surrender to them of such bond or bonds and coupons, the fiscal agents shall authenticate and deliver, or cause to be authenticated and delivered, in exchange therefor, a bond or bonds of the same series payable in the same currency as the bond or bonds surrendered, to a principal amount equal to the principal amount of the bond or bonds surrendered for exchange. All bonds so surrendered for exchange and the coupons attached thereto shall be canceled by the fiscal agents and delivered to a representative of the Republic for that purpose or sent by registered mail to the nearest embassy or legation of the Republic, at the risk and expense of the Republic. Upon every exchange of bonds the Republic may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge required to be paid in connection therewith, and in addition may charge a sum not exceeding \$1 for each new bond issue upon any such exchange.

The Republic agrees that it will at all times and from time to time, when and as requested by the fiscal agents, and in advance of the actual need therefor, provide the fiscal agents with a sufficient number of bonds of the loan of the appropriate series and payable in the appropriate currency, duly executed by the Republic and which when authenticated, exchanged, and delivered pursuant hereto shall constitute the duly authorized obligations of the Republic, to take care of exchanges of bonds as herein provided, which said bonds, however, in no event shall be authenticated and delivered by the fiscal agents unless and until required in connection with any such exchange.

Sec. 11. If any bond of any series of the loan, with the coupons thereunto appertaining, shall become mutilated or be destroyed, stolen, or lost, the Republic shall execute, and thereupon the fiscal agents shall authenticate and deliver, or cause to be authenticated and delivered, a new bond of the same series and denomination and payable in the same currency in exchange for such mutilated bond and coupons or in substitution for such lost, stolen, or destroyed bonds and coupons. In case of destruction, theft, or loss the applicant shall furnish the Republic and the fiscal agents, and any one or more of the paying agents (appointed as hereinafter provided) which may be affected thereby, with evidence, satisfactory to each of them, of such destruction, theft, or loss and also furnish each of them such security and indemnity as the Republic, the fiscal agents, and such paying agents may respectively require in the absolute discretion of each of them. At the time of the delivery of any new bond pursuant to the provisions of this section, the owner of such mutilated, lost, stolen, or destroyed bond shall reimburse the Republic for any reasonable expense incurred by the Republic, including counsel fees and the charges of the fiscal agents in connection with the execution, authentication, and delivery of such new bond, and also for any stamp tax or governmental charge incident to the execution, authentication, and delivery of such new bond.

Sec. 12. Before authenticating and delivering any bonds of the loan all coupons appertaining thereto at the time matured shall be detached and canceled by the fiscal agents and delivered to a representative of the Republic for that purpose or sent by registered mail to the nearest embassy or legation of the Republic at the risk and expense of the Republic.

#### ARTICLE 2.—PAYMENTS FOR THE SERVICE OF INTEREST AND AMORTIZATION ON FIRST SERIES BONDS

Until all the first series bonds shall have been paid or redeemed, the Republic shall pay, or cause to be paid, in each semiannual period, beginning with the semiannual period commencing on December 1, 1927, to the fiscal agents,

at the office of J. & W. Seligman & Co., in the Borough of Manhattan, city and State of New York, United States of America, for the semiannual service of interest and amortization of the first series bonds, the sum of \$1,750,000 in gold coin of the United States of America of the standard aforesaid, which semiannual sum is calculated to be sufficient to pay all interest charges and provide a cumulative sinking fund to retire all the first series bonds at or before maturity by semiannual drawings of bonds for redemption at their principal amount. All sums payable hereunder for the service of interest and amortization of the first series bonds in respect of each semiannual period shall be paid in monthly installments as hereinafter in article 7 provided, and the fiscal agents shall apply or cause to be applied such monthly installments to the payment of interest upon, and as a sinking fund for the purpose of redemption of, the first series bonds in the matter in said article 7 provided.

### ARTICLE 3.—EXTRAORDINARY REDEMPTION

SECTION 1. The first series bonds shall be subject to redemption at the option of the Republic, on June 1, 1928, and on any interest payment date thereafter, as a whole or in part, at 100 per cent of their principal amount and accrued interest to the date designated for redemption, on 60 days previous notice, as provided in section 2 of this article.

Bonds of additional series of the loan may be made subject to redemption, at the option of the Republic, either as a whole or as a whole or in part, at such time or times, but only on an interest payment date or dates, and at such redemption price as the Republic may determine at the time of issue thereof and specify in the bonds of such series.

SEC. 2. In case at any time the Republic shall desire to redeem the bonds of the loan of any series which by their terms are redeemable, either as a whole or as a whole or in part, the Republic shall so notify the fiscal agents in writing, specifying the interest payment date (which shall not be less than 90 days after such notification) on which it desires to make redemption and the principal amount of the bonds of each series which it desires to redeem. In the case of partial redemption of any series which has been issued in more than one currency the fiscal agents shall determine the principal amounts of bonds of such series originally issued in each currency which shall be redeemed, by allocating, so far as may be practicable, to the redemption of bonds of such series issued in each currency a proportion of the redemption moneys equal to the proportion which the aggregate principal amount of all bonds of such series issued in such currency bears to the aggregate principal amount of all bonds of such series originally issued in all currencies. In case of partial redemption, the fiscal agents shall also determine, or cause to be determined, by lot, in any usual manner deemed fair by the fiscal agents, the numbers of the bonds to be redeemed, and furnish, or cause to be furnished, a notarial certificate thereof to the Republic. As soon as practicable thereafter the fiscal agents shall, on behalf of the Republic, give or cause to be given, in each city in which any of the bonds to be redeemed shall be payable, notice of the intention of the Republic to pay and redeem such bonds, by an advertisement published once a week for at least four consecutive weeks in each instance upon any day of the week, each publication to be made in at least one daily newspaper published and of general circulation therein, the first publication to be at least 90 days, and not more than 90 days, before the date so fixed, specifying the date of such proposed redemption and the redemption price, and, in case of partial redemption, in the case of each city, the numbers of the bonds which are to be redeemed and which may be presented therein for payment and requiring that the bonds so called for redemption with all coupons maturing on and after the redemption date annexed thereto be surrendered on or after such redemption date, at the office of either of the fiscal agents or of any of the paying agents at which such bonds may be presented for payment, for redemption at said redemption price, and stating that the bonds so called for redemption shall, on said redemption date, become due and payable, and, that, unless default shall be made by the Republic in providing the moneys necessary for such redemption as aforesaid, interest on such bonds shall cease to accrue on such redemption date.

SEC. 3. The Republic shall, at least 30 days prior to the date so fixed for such redemption as provided in the preceding section of this article, deposit with the fiscal agents, at their principal office or offices in the city and State of New York, a sum of money, in gold coin of the United States of America of the

standard aforesaid (converting into dollars the amounts in other currencies required for the redemption of the bonds issued and made payable in said currencies at the gold parity of exchange existing at the date of issue of said bonds), sufficient to redeem and pay the bonds so called for redemption at the redemption price thereof together with the accrued interest thereon to the date fixed for redemption, and the fiscal agents shall redeem and pay, or cause to be redeemed and paid, but only out of such deposited moneys, all such bonds presented and surrendered for redemption on and after said redemption date at the redemption price thereof together with accrued interest thereon to said redemption date. Any moneys set aside, pursuant to subsection (a) of section 1 of article 7 hereof for the payment of interest maturing on said redemption date on any first-series bonds which may be so called for redemption shall be credited against the obligation of the Republic to deposit such accrued interest as a part of the redemption price for first-series bonds. Similarly, any moneys set aside for the payment of interest maturing on said redemption date on the bonds of any other series of the loan which may have been called for redemption shall be credited against the obligation of the Republic to deposit such accrued interest as part of the redemption price for such bonds of such series. The Republic shall also pay to the fiscal agents, on demand, such additional sum in gold coin of the United States of America of the standard aforesaid, as may be required in connection with the redemption of bonds of any series issued and made payable in another currency at said gold parity of exchange, by reason of the fact that the cost of purchasing the required amount of the other currency exceeds the equivalent in the United States of America gold coin of such amount of the other currency at the gold parity of exchange existing at the date of issue of said bonds, provided, however, that all savings in the amounts required for the redemption of such bonds by reason of the fact that the cost of purchasing such other currency is less than the equivalent in United States of America gold coin of such amount of the other currency, shall be credited to the Republic by the fiscal agents.

SEC. 4. From and after the date so designated for redemption, the notice aforesaid having been published and the deposit aforesaid having been made, all bonds so called for redemption shall cease to bear interest and, on presentation thereof in accordance with said published notices at the office of the fiscal agents or any of the paying agents at which such bonds are payable, together with all coupons maturing on and after said redemption date, said bonds shall be paid by the Republic at their redemption price and accrued interest to such redemption date, as above provided. Bonds issued and made payable in United States of America dollars which are called for redemption and presented for payment at the offices of paying agents for the bonds in cities outside the United States of America shall be paid by such paying agents at the bankers' buying rate for dollar sight exchange on the city of New York at the time of presentation in the respective cities, and such paying agents shall reimburse themselves for such disbursements by means of sight drafts drawn on the fiscal agents in the city of New York in dollars for the amount of the redemption price, which said drafts the fiscal agents shall pay on behalf of the Republic upon presentation thereof out of the moneys set aside for such redemption. The fiscal agents shall notify each of the paying agents by cable when sufficient moneys have been deposited by the Republic and set aside by the fiscal agents for the payment of the redemption price of the bonds so called for redemption, and the respective paying agents shall not pay or redeem any bonds called for redemption presented to them unless they shall have received the proper notification by cable. If any bonds so called for redemption shall not be paid on presentation thereof, said bonds shall continue to bear interest at the rate per annum specified in such bonds, upon the principal amount thereof until payment. If any bond presented for redemption shall not be accompanied by the coupon maturing on the redemption date, then said bond shall be paid at the redemption price aforesaid less the face amount of such coupon. All bonds redeemed under the provisions of this article, and all coupons thereto appertaining, shall immediately upon such redemption be canceled by the fiscal agents or paying agents through whom such redemption is made and be delivered at convenient periods to a representative of the Republic for that purpose, or sent by registered mail to the nearest embassy or legation of the Republic, at the risk and expense of the Republic, provided, however, that all bonds redeemed at the office of a paying agent shall first be sent by registered mail to the fiscal agents at the risk and expense of the Republic. No bonds of the same series shall be issued in lieu of such bonds so redeemed and canceled.

## ARTICLE 4.—ISSUE OF BONDS OF ADDITIONAL SERIES

SECTION 1. The Republic may at any time or from time to time issue additional bonds of the loan under this agreement by creating additional series of bonds of the loan as hereinafter provided. The bonds of each series shall be distinctively designated by the number or letter of the series or by the number of the year in which issued or in any other manner desired by the Republic and satisfactory to the fiscal agents. All bonds of the same series shall be identical in form and substance except that they may be issued and made payable in different currencies and in different places and may be in different languages and of different denominations and may be in coupon or registered form, and except that as between bonds of different denominations and as between coupon bonds and registered bonds there may be such appropriate differences as may be determined by the Republic at or before the creation of the series and approved by the fiscal agents. If the bonds of any series are issued in more than one denomination the bonds of such series of any denomination may be made exchangeable for bonds of such series of any other denomination or denominations, but payable in the same currency, of an equal aggregate principal amount upon payment of any tax or taxes or other governmental charge in connection therewith, and a charge of not exceeding \$1 for each new bond issued. The several series may be made payable in United States of America dollars, or in any other foreign currency, or in any two or more foreign currencies, and in such principal amount in each such currency as the Republic may determine at the time of issue thereof, provided that the maximum principal amount of bonds of any series issuable by the Republic shall be limited, and such limitation shall be expressed in the bonds of such series. Additional bonds of the loan shall be payable in such place or places as the Republic may determine and provide in the bonds at the time of issue thereof, provided that all bonds of the loan issued and payable in United States of America dollars shall be payable in the city and State of New York, United States of America, at the principal office or offices of the fiscal agents, and may also be made payable, at the option of the holders, at the office or offices of such paying agents in such other place or places in such other foreign currency or currencies, at such rate or rates of exchange as the Republic may determine and provide in the bonds at the time of issue thereof, and provided, also, that all bonds of the loan issued and payable in any other foreign currency shall be payable in a principal city or cities of the country of such currency, at the office or offices of paying agents for such bonds appointed as hereinafter provided, and may also be made payable, at the option of the holders, at the office or offices of the fiscal agents in the city and State of New York, United States of America, in United States of America dollars, at such rate or rates of exchange as the Republic may determine and provide in the bonds at the time of issue thereof. Any additional bonds of the loan may provide that all payments in respect of such bonds shall be made in gold coin of the currency in which such bonds are issued or are payable of the standard of weight and fineness existing at the date as of which such bonds are issued. The bonds of each additional series shall bear interest from such date at such rate and payable on such dates and shall mature at such date as at the time of the creation of such series shall be fixed by the Republic and be stated in the bonds of such series. A cumulative sinking fund calculated to be sufficient to retire the entire issue by maturity by redemption shall be created for each series of the bonds to be applied to the retirement or redemption of bonds at such prices and in such manner as the Republic may provide at the time of the creation and issue of such series of bonds. The Republic may provide at the time of the creation and issue of any series of the bonds that such bonds shall be redeemable at its option as a whole, or as a whole or in part, at any time or from time to time before maturity (but only on an interest-payment date or dates) at their principal amount, or at their principal amount together with a premium, plus accrued unpaid interest, provided that such provision shall be expressed in the bonds of said series. Except as aforesaid, the terms and provisions of all additional series of the bonds shall be substantially identical with the terms and provisions of the first-series bonds herein described. All the bonds of each series at any time outstanding shall be entitled to share in the security of the revenues or assets which may at any time be pledged or charged as security for the bonds equally and ratably with the outstanding bonds of all other series.

SEC. 2. No bonds of the loan of any series in addition to the \$50,000,000 principal amount of the first series bonds shall be issued by the Republic or authenticated by the fiscal agents or any paying agent of the loan unless and until the gross revenues of the Republic, calculated (as provided in section 5 of this article) on a gold basis, collected by or deposited with the Caja de Depositors y Consignaciones, hereinafter called the caja (or such other successor collection agency as may be appointed as hereinafter provided), shall have averaged for the three fiscal years next preceding the date on which it is proposed to issue the bonds of such additional series at least one and three-quarters time the amount necessary to meet the maximum charges, similarly calculated on a gold basis, in any year for the service of interest and amortization of the bonds of all series of the loan outstanding at the time of such proposed additional issue including the additional bonds to be issued and of all other funded debt, external and internal, issued, assumed, or guaranteed by the Republic, and secured by the revenues so collected by or deposited with the caja, but excluding any such external funded debt to the extent represented by bonds which have been purchased by the fiscal agents for account of the Republic and are then being held by them pending the retirement of such bonds.

SEC. 3. No bonds of the loan of any series in addition to the \$50,000,000 principal amount of the first series bonds shall be issued by the Republic or authenticated by the fiscal agents or any paying agent of the loan unless and until the gross revenues of the Republic calculated (as provided in section 5 of this article) on a gold basis, however, or by whomever collected, shall have averaged for the three fiscal years next preceding the date of issue of the bonds of such additional series at least three times the maximum charges, similarly calculated on a gold basis, in any year for the service of the entire funded debt, external and internal, issued, assumed, or guaranteed by the Republic, including the bonds of such additional series of the loan to be issued, but excluding such part of any external funded debt represented by bonds which have been purchased by the fiscal agents for account of the Republic and are then being held by them pending the retirement of such bonds.

SEC. 4. For the purpose of determining whether the gross revenues of the Republic collected by or deposited with the caja, as provided in section 2 of this article, and whether the gross revenues of the Republic however collected, as provided in section 3 of this article, are sufficient at any time or from time to time to permit the issue of bonds of additional series of the loan, the fiscal agents may rely upon a certificate signed on behalf of the Republic by the Minister of Finance of the Republic setting forth the facts regarding the amounts of the gross revenues of the Republic collected by or deposited with the caja, or otherwise collected, as the case may be, the calculation thereof on a gold basis, the average thereof for the three fiscal years next preceding the date on which it is proposed to issue the bonds of such additional series, the amounts required for the service of interest and amortization of the bonds or funded debt of the Republic referred to in said section 2 and said section 3, respectively, and the amount and designation of the external funded debt of the Republic represented by bonds which have been purchased by the fiscal agents for account of the Republic and are then or thereafter to be held by them, pending the retirement of such bonds.

SEC. 5. For the purpose of calculating the amount of gross revenues of the Republic and the amount of service charges on funded debt of the Republic, in each case on a gold basis, as provided in section 2 and section 3 of this article, such revenues and charges shall be calculated at either (1) the average rate or rates of exchange during the three fiscal years next preceding the date on which bonds of an additional series of the loan are proposed to be issued, or (2) the average rate or rates of exchange during the three calendar months immediately preceding the calendar month in which the issue of bonds of an additional series of the loan is proposed to be made, whichever of said average rates shall purchase the smaller amount of United States of America gold coin of the standard of weight and fineness existing on December 1, 1927, or in lieu thereof fine gold, and the fiscal agents may rely upon the certificate of the Reserve Bank of Peru or the caja as to such average rates.

#### ARTICLE 5.—PARTICULAR COVENANTS OF THE REPUBLIC

SECTION 1. The Republic pledges its full faith and credit for the due and punctual payment of the principal of, interest upon, and the sinking fund payments in respect or, the bonds of the loan, of all series at any time issued.

as, and when, the same shall become due and payable, and for the due and punctual performance of all the other covenants and agreements in this agreement and in the first series bonds contained and in the bonds of each additional series to be contained, to be performed, or observed by it.

SEC. 2. The Republic will duly and punctually pay the principal of, and the interest upon, the bonds of the loan of all series at any time issued, according to the tenor thereof in every case free from and without deduction or diminution for any taxes, assessments, charges, levies or duties of any nature, now or at any time hereafter imposed, levied or assessed by the Republic, or by any province, district, municipality or other taxing authority thereof or therein. The Republic will make payment of such principal and interest in time of war as well as in time of peace and irrespective of the citizenship or residence of the holders of any such bonds.

SEC. 3. The Republic will not, directly or indirectly, extend or assent to the extension of the time of payment of any coupon or claim for interest on any of the bonds of the loan, of any series at any time issued, and will not, directly or indirectly, be a party to or approve such extension by purchasing or refunding such coupons or claims for interest or in any other manner.

SEC. 4. The Republic will pay the stamp taxes and other duties and charges, if any, to which, under the laws of the Republic, this agreement, or the bonds of the loan, temporary or definitive, of any series, may be subject.

SEC. 5. So long as any bonds of the loan, of any series, shall be outstanding, the Republic covenants that it will not create, issue, assume or guarantee any loan or obligations secured by a lien or charge upon any of its revenues or, except with the consent of the fiscal agents, upon any of its assets, or secured by a lien or charge upon the assets or revenues of any of its political subdivisions, or assign any such revenues or, except with the consent of the fiscal agents, any such assets, as security for any loan or obligations, unless prior thereto such revenues or assets shall have been subjected to a lien or charge in favor of all the bonds of the loan of all series then outstanding and which shall thereafter be outstanding, subject only to the liens existing at the date of this agreement and which are still in force, if any; and that the lien or charge on such revenues or assets created in favor of such loan or obligations shall be expressly made subject to a prior lien or charge in favor of all the bonds of the loan of all series then outstanding and which shall thereafter be outstanding.

SEC. 6. The Republic covenants that if, so long as any bonds of the loan of any series shall be outstanding, the Republic shall create, issue, assume or guarantee any funded debt, secured or unsecured, whereby the maximum service charges, calculated on a gold basis (in like manner as provided in section 5 of article 4 hereof), in any year on the entire funded debt, external and internal, of the Republic (but excluding such part of its external funded debt as may be represented by bonds which have been purchased by the fiscal agents for account of the Republic and are then being held by them pending the retirement of such bonds) shall be increased to an amount in excess of one-third of the average annual gross revenues of the Republic, similarly calculated on a gold basis, for the three fiscal years next preceding the date of such creation, issue, assumption or guarantee, then and in such case all revenues at the time collected by or deposited with the caja or its successor pursuant to this agreement shall thereupon automatically be and become subject to a lien and charge in favor of the bonds of the loan of all series then outstanding or which may thereafter be outstanding, subject only to liens existing at the date of this agreement and which are still in force, if any.

SEC. 7. The Republic covenants that, so long as any bonds of the loan of any series shall be outstanding, the total expenditures of the Republic, both ordinary and extraordinary, but exclusive of those for capital investment for public works, shall not in any fiscal year exceed the revenues provided for in the budget for the same fiscal year and collected in due course, except in case of a national emergency; and the Republic further covenants that it has enacted or established or will enact or establish such legislation or budgetary procedure as may be necessary to effect this end, and that such legislation and budgetary procedure will be at all times strictly followed and observed in the preparation of its budget and in making all disbursements.

SEC. 8. The Republic covenants that the net proceeds of the first series bonds, i. e., after deducting from the gross proceeds an amount sufficient to pay any expenses to be borne by the Republic in connection with the issue and sale of the first series bonds, shall forthwith upon the Republic's becoming entitled to

such proceeds be deposited with the fiscal agents for account of the Republic to be disposed of by them for account of the Republic as follows:

(a) Up to but not exceeding \$23,930,000 shall be applied by the fiscal agents (1) to the purchase at not exceeding their redemption prices plus accrued interest, of such bonds or notes of external loans or obligations issued or guaranteed by the Republic from time to time outstanding, as the fiscal agents in their absolute discretion may select, whether or not the same are by their terms presently redeemable, or (2) to the redemption at their redemption prices of any or all outstanding bonds or notes of any or all external secured loans or obligations of the Republic, which by their terms are presently redeemable at the option of the Republic, as shall be selected by the fiscal agents in consultation with the Republic. Pending such application all such moneys shall remain on deposit with the fiscal agents. Bonds so purchased may be resold by the fiscal agents for account of the Republic when deemed advisable by them and authorized by the Republic, and such authority may be general or specific, and the proceeds of such sales shall revert to and become a part of the fund created by this subdivision (a). The fiscal agents may charge to or pay from the fund created by this subdivision (a) the customary stock exchange commissions on all such purchases and sales, and such commissions shall not be included in the purchase or sale prices. All interest received by the fiscal agents upon bonds or notes purchased and held by them as aforesaid, and all moneys, if any, received by the fiscal agents upon the redemption of such bonds or notes, and also all savings arising from purchases of such bonds or notes which are called for redemption as above provided by reason of the fact that such bonds are purchased below the prices at which they are respectively called for redemption shall be for account of the Republic and be disbursed as the Minister of Finance of the Republic may direct;

(b) Up to but not exceeding \$4,000,000 shall be held and utilized by the fiscal agents as a gold exchange fund in such manner and for such period, not less than one year, commencing with the date of this agreement, as the executive power of the Republic may deem advisable, to effect the stabilization of the Peruvian national currency as contemplated by section 13 of this article. After the termination of such gold exchange fund any balance remaining in the hands of the fiscal agents shall be paid over to the Republic;

(c) Upon the creation by law of the Mortgage Bank of Peru (Banco Hipotecario del Peru, up to \$2,000,000 may be withdrawn by the Republic for the purpose of providing or reimbursing the Republic for the payments then to be made by it upon the subscription which the Republic will be obligated to make to the share capital of said Mortgage Bank of Peru (Banco Hipotecario del Peru).

(d) Up to but not exceeding \$2,820,000 may, at the option of the Republic, be applied to the construction and improvement of Callao Harbor dock and shipping facilities and may be withdrawn by the Republic from time to time by drafts drawn to the order of the contractors undertaking such development and in accordance with the terms of the contract therefor and any modifications thereof, if any;

(e) The residue shall be applied by the fiscal agents as follows:

(1) To the repayment of all sums advanced under the short-term bank credit granted to or procured for the Republic under an agreement dated as of December 1, 1927, between the Republic and J. & W. Seligman & Co. and the National City Co., the interest due on said short-term bank credit and all other sums repayable in respect thereof as provided in said agreement, and to the extent that the sums advanced under said short-term bank credit shall have been applied at the date of receipt of the proceeds of the first series bonds to the purposes hereinbefore specified in subdivisions (a), (b), (c), and (d) of this section 8, the amounts specified in said subdivisions to be applied by the fiscal agents for such purposes shall be reduced accordingly;

(2) The residue remaining after making the payments provided in subdivision (1) above shall remain on deposit with the fiscal agents and be withdrawn by the Republic from time to time in installments at the rate, determined from December 1, 1927, of not exceeding \$750,000 per month for the purpose of carrying forward the public works under construction at the date of this agreement.

The Republic hereby irrevocably authorizes the fiscal agents to apply the proceeds of the first series bonds deposited with them for account of the Republic to the purposes, in the amounts, and at the time or times hereinabove in this section specified, and the Republic covenants and agrees that such

proceeds shall remain on deposit with the fiscal agents until disposed of by them for account of the Republic for the purposes and in the amounts so specified.

SEC. 9. The Republic covenants that, until all of the outstanding external secured loans and obligations of the Republic shall have been paid or redeemed or called for redemption and the funds necessary for such redemption deposited with the respective fiscal or paying agents therefor, it will not, except with the consent of the fiscal agents, issue any bonds of any additional series of the loan except for the purpose of, and that it will apply the entire net proceeds of the bonds of such additional series of the loan solely to, either the purchase or redemption of such external loans of the Republic, or for capital expenditures for public works to be specified in the Republic's budget or in the acts of the Congress of the Republic or in the agreement or agreements pursuant to which such bonds of such additional series are to be issued or sold, which capital expenditures shall not in the aggregate exceed \$9,000,000 in any fiscal year, exclusive of an aggregate of \$6,500,000 for the development of the Callao Harbor pursuant to a program for such development in process of being carried out at the date of this agreement; and the Republic further covenants that such net proceeds shall be deposited with the fiscal agents; and that such portion thereof as is applicable to capital expenditures other than for the Callao Harbor development will not be withdrawn by the Republic at a rate in excess of \$750,000 per month, and that such portion thereof as is applicable to the development of the Callao Harbor will not be withdrawn by the Republic except by drafts drawn to the order of the contractors undertaking such development and in accordance with the terms of the contract therefor and any modifications thereof, if any, a copy of which and of all such modifications shall be furnished to the fiscal agents by the Republic. The Republic further covenants that, until all of the external secured loans of the Republic outstanding and callable at the date of this agreement shall have been paid or redeemed, or called for redemption and the funds necessary for such redemption deposited with the respective fiscal or paying agents therefor, it will not begin any public works not at the date of this agreement in the course of construction, excepting the Callao Harbor development; and that the Callao Harbor development shall be financed solely with the proceeds of bonds of the loan and that the Republic will promptly impose such port dues or tariffs as shall at all times be sufficient to reimburse it for the service of such financing and, in connection with the use of such proposed harbor facilities when completed, as shall be sufficient to make the same self-sustaining.

SEC. 10. The Republic covenants that so long as any of the bonds of the loan, of any series, which by their terms are payable in dollars, shall be outstanding, it will maintain an office or agency in the borough of Manhattan, in the city and State of New York, where notices, requests, or demands in respect of such bonds or interest coupons may be served, and where such bonds and interest coupons may be presented for payment.

SEC. 11. The Republic covenants that it will from time to time upon request of the fiscal agents furnish, or cause to be furnished, to the fiscal agents, a report or statement signed by the Minister of Finance or other responsible official of the Republic, showing in reasonable detail the receipts and expenditures of the Republic during the period specified in such request, and that it will furnish any other information which the fiscal agents may request as to any other matters pertaining to its revenues or affecting the service of the bonds or the performance of its covenants contained in this agreement.

SEC. 12. The Republic covenants that, when and as requested by the fiscal agents, it will, by executive decree or other appropriate action, call for redemption and redeem all or such part, at the earliest permissible date or dates thereafter of such of its external secured callable loans and obligations issued and outstanding at the date of this agreement as shall be specified by the fiscal agents and apply to the redemption thereof such part of the proceeds of the first-series bonds as is applicable thereto, pursuant to the provisions of this agreement, or present for cancellation the bonds of such external secured callable loans purchased for account of the Republic by the fiscal agents and held by them pending such cancellation, pursuant to the provisions of this agreement; and the Republic further covenants that the bonds so redeemed or presented shall be canceled and that no bonds of such external secured callable loans shall be issued in place thereof.

SEC. 13. The Republic covenants that it will cooperate with the Reserve bank of Peru (Banco de Reserva del Peru) and with the fiscal agents in working out a plan for stabilizing the Peruvian currency, and that it will cooperate fully with the Reserve Bank of Peru (Banco de Reserva del Peru) and with the fiscal agents in carrying out such a plan.

SEC. 14. The Republic covenants that prior to the issue of the first series bonds, it will elect or appoint, or cause to be elected or appointed, one person, designated by the fiscal agent, as a member of the board of directors of the caja and as the tenth director on the board of directors of the Banco de Reserva del Peru (Reserve Bank of Peru), hereinafter called the reserve bank, and one person, designated by the fiscal agents, as an alternate member to act in the place and stead of such member in case of such member's death, resignation or inability to act for any reason; and the Republic covenants that the fiscal agents shall have the absolute right at all times, so long as any bonds of the loan shall be outstanding, to dismiss, and designate the successors to, such persons or their successors, and that at all times, so long as any of the bonds of the loan shall be outstanding, one person designated by the fiscal agents shall be a member of the board of directors of the caja and the tenth director on the board of directors of the reserve bank, and one person designated by the fiscal agents shall be an alternate to act in the place and stead of such member as above provided, and that such member or, in case of such member's death, resignation or inability to act for any reason, such alternate member, shall have the same rights and powers in respect of all matters relating to the collection of the revenues of the Republic, at the time entrusted to the caja for collection or deposit, and the same rights and powers in respect to the management and direction of the affairs of the reserve bank, as the other members of said boards, respectively. The Republic hereby agrees that the reasonable compensation and expenses of such member and alternate, not to exceed \$15,000 per annum, shall be included in the expenses of the fiscal agents and shall be paid by the Republic to the fiscal agents from time to time upon demand. The fiscal agents agree to designate to the Republic, and otherwise as may be required by law No. 4500 of the Republic, in writing or by cable as soon as practicable after the execution of this agreement, two persons to be such member and alternate member, respectively, of both said boards. In case of the death, resignation, or inability to act for any reason of such member so designated, the alternate member shall act in such member's place and stead until the fiscal agents shall similarly designate the successor of such member, and the Republic covenants to elect or appoint such successor, or cause such successor to be elected or appointed, as soon as designated by the fiscal agents, a member of both said boards. In case the successor so designated shall be the person previously designated as alternate member or in case of the death, resignation, or inability to assume the duties of a member of said boards of the alternate member, a successor of such alternate member shall be similarly designated by the fiscal agents, and the Republic covenants to elect or appoint such successor or cause such successor to be elected or appointed, as soon as designated by the fiscal agents, an alternate member of both said boards. In case the Republic shall transfer the collection of any of its revenues provided by this agreement to be collected by or deposited with the caja or its successor, the Republic will cause a member of the board of directors or one of the managers of such agency and an alternate member or manager, designated by the fiscal agents, to be elected or appointed similarly.

SEC. 15. The Republic consents and agrees that the fiscal agents, or either of them, or their successors, acting as the representatives of the holders of the bonds of any or all series of the loan at any time outstanding, may represent said holders and may enter into any agreements with the Republic in connection herewith or supplemental hereto pursuant to section 1 of article 9 hereof, and may institute and carry on, in their own name or names, for the benefit of such holders, all actions and proceedings, whatever be the grounds thereof, to enforce any of the obligations or undertakings of the Republic set forth in or contemplated by such bonds, this agreement or any agreements executed in connection herewith or supplemental hereto, without being required to produce any of such bonds in any court or elsewhere or to prove its agency for or authority from said holders. These provisions are of the essence of the bonds and of this agreement and any agreements executed in connection herewith or supplemental hereto, and the holder of any bond of any series of the loan, by his acceptance thereof, shall be deemed to have irrevocably conferred upon the fiscal agents, and each of them, or their respective successors, the authority aforesaid.

## ARTICLE 6—COLLECTION OR DEPOSIT OF REVENUES

SECTION 1. The Republic covenants that prior to the issue of any of the first series bonds, it will, pursuant to the provisions of article 9 of law No. 5931, enacted December 17, 1927, enter into an agreement with the caja, whereby the caja shall be irrevocably authorized and directed by the Republic, and the caja shall covenant and agree:

(a) To collect all present and future revenues of the Republic of whatever origin and denomination with the sole exceptions of:

(1) the revenues given at the date of this agreement as specific guaranty of external loans of the Republic and irrevocably intrusted, so long as such external loans are outstanding, to special entities other than the caja for collection, and

(2) until such date as the executive power of the Republic may judge convenient, the revenues of posts and telegraphs, and such customs revenues as are not at the date of this agreement given as guaranty for external loans of the Republic, and

(3) the consular revenues of the Republic collected in foreign countries;

(b) To collect the revenues given at the date of this agreement as specific guaranty of external loans of the Republic and irrevocably intrusted, so long as such external loans are outstanding, to special entities other than the caja for collection, as soon as such revenues are, respectively, freed from such guaranty, and the revenues of posts and telegraphs, and such customs revenues as are not at the date of this agreement given as guaranty for external loans of the Republic, as soon as the executive power of the Republic may judge convenient; and

(c) To receive the deposit, as soon as the Republic is entitled to receive the same of—

(1) all moneys payable to the Republic in respect of each and every revenue given at the date of this agreement as specific guaranty of an external loan or loans of the Republic and intrusted, so long as such external loan or loans are outstanding, to an entity or entities other than the caja for collection, and

(2) all consular revenues of the Republic collected in foreign countries, which shall be deposited to the order of the caja with such first-class banking institutions as the caja may select pursuant to the provisions of article 4 of said Law No. 5931—

and in and by such agreement the Republic shall irrevocably authorize and direct the caja, and the caja shall covenant and agree to apply the moneys collected by or deposited with it as aforesaid in each month to the payment to the fiscal agents of the monthly proportion, that is to say, one-sixth of the semiannual service charges of the bonds of the loan of all series at the time outstanding, equally and ratably for each series, before making any disbursements of such moneys for any other purpose whatsoever, and to apply such moneys and to make each and every such payment in accordance with the conditions of the loan agreements under which the bonds of each series of the loan are respectively issued; provided, however, that in the case of moneys collected by or deposited with the caja in respect of revenues at the date of this agreement given as guaranty for an outstanding loan of the Republic and so long as such loan is outstanding, the caja shall first apply the moneys collected or deposited in respect of each such revenue for the payment, so far as required, of the service of each such loan in accordance with the terms of the agreement under which such loan was contracted.

SEC. 2. The Republic covenants that if, so long as any of the bonds of any series of the loan shall be outstanding, the caja shall cease to collect, receive, or apply the revenues intrusted to it pursuant to Law No. 5746 and Law No. 5931, or any other law, or if it should fail to comply in any respect with the obligations provided in Law No. 5930 authorizing the creation of the loan, or in any agreement entered into between the caja and the Republic with respect to the service of the bonds of any series of the loan as in section 1 of this article provided, or for any reason the caja should cease to exist, the executive power of the Republic, in agreement with the fiscal agents, shall immediately organize or appoint a special collecting agency, acceptable to the fiscal agents, which shall immediately upon such organization or appointment automatically assume all the rights and obligations of the caja in connection with the collection, receipt, or application of the revenues of the Republic pursuant to said Law No. 5931 and any agreement entered into between the Republic and the caja as in section 1 of this article provided; and that the

expenses incurred in the organization of said special collecting agency and its expenses and compensation in and about the collection, receipt, and application of such revenues shall be borne by the Republic. The Republic further covenants that if such special collecting agency, or any successor, should cease to collect, receive, or apply such revenues, or to comply in any respect with such obligation, or for any reason should cease to exist, the executive power of the Republic, in agreement with the fiscal agents, shall immediately in the same manner organize or appoint a successor special collecting agency, acceptable to the fiscal agents, which shall immediately upon its organization or appointment automatically assume all the rights and obligations of the special collecting agency so ceasing to collect, receive, or apply such revenues or to comply with such obligations or to exist; and that the expenses incurred in the organization of such successor special collecting agency and the expenses and compensation of such successor special collecting agency in and about the collection, receipt, and application of such revenues shall be borne by the Republic.

ARTICLE VII—APPLICATION OF REVENUES TO INTEREST AND AMORTIZATION PAYMENTS OF THE FIRST SERIES BONDS

SECTION 1. The payment to be made by the Republic to the fiscal agents in respect of each semiannual period for the semiannual service of interest and amortization of the first series bonds, as provided in article 2 of this agreement, shall be made in the following amounts and in the following manner:

(a) The sum of \$291,666.66 $\frac{2}{3}$  in December, 1927, and monthly in each calendar month thereafter, said sum being equal to one-sixth of the amount necessary for the installment for the service of interest on, and amortization of, the first series bonds in respect of each semiannual period as in said article 2 provided. Unless and until otherwise agreed upon by the Republic, the caja and the fiscal agents as representatives of the first series bondholders, such monthly payments shall be made in the following manner: On the first Monday in December, 1927, and on each Monday thereafter, the gross amounts of the revenues of the Republic collected by or deposited with the caja (or any successor special collecting agency, appointed as in section 2 of article 6 provided), during the preceding week, remaining after deducting from the revenues which are pledged at the date of this agreement to secure any existing loan of the Republic, the payments for the service of interest and amortization and all other moneys due and payable in respect of the bonds of such loan at the time outstanding and not previously provided for, shall be paid by the caja, on behalf of the Republic, to the Peruvian representative of the fiscal agents, appointed as hereinafter provided, until the amount required to make available to the fiscal agents in New York, in gold coin of the United States of America of the standard aforesaid, the full monthly payment aforesaid, shall have been received by the Peruvian representative. Such weekly payments shall be made either in dollars of the United States of America or, with the consent of the fiscal agents, in Peruvian pounds, and in the event that any such payment shall be made in Peruvian pounds the amount thereof shall be applied by the Peruvian representative as soon as practicable after the receipt thereof to the purchase, at the expense and for the account of the Republic, of dollar sight exchange on New York. All such dollars so paid or purchased shall be forthwith remitted by the Peruvian representative to the fiscal agents in the city of New York in such a manner as they shall direct, but at the risk and expense of the Republic.

(b) Such additional sum, on or before the last day of each calendar month, commencing with December, 1927, as may be necessary to make up the deficiency, if any, by which the revenues of the Republic collected by or deposited with the caja, or its successors, and paid over to, or for account of, and received by, the fiscal agents in New York, for the service of interest on, and amortization of, the first series bonds as in subsection (a) above provided, shall not be sufficient for the full payments therein specified to be made in respect of each such calendar month, and such sum on or before June 1 and December 1 in each year, commencing with June 1, 1928, as may be necessary to make up the deficiency, if any, by which the moneys paid over to, or for account of, and received by, the fiscal agents, in New York, in respect of the current semiannual payment, as provided in article 2 hereof, shall not be sufficient for the full payment therein specified to be made.

Any consent of the fiscal agents that the payments by the Republic to the Peruvian representative may be made in Peruvian pounds, as in subsection (a),

of this section provided, may at any time be withdrawn by the fiscal agents by notice in writing or by cable addressed and sent to the Minister of Finance of the Republic and the *caja*, and thereafter such payments to the Peruvian representative shall be in dollars of the United States of America until the fiscal agents again consent that such payments may be made in Peruvian pounds.

The failure of the fiscal agents to secure or retain the service of a bank, firm, corporation, or responsible individual to act as its representative in Peru or the failure of the fiscal agents to appoint such representative in Peru or the failure of the Peruvian representative to transmit any sums paid over to it to the fiscal agents in New York or the failure of the fiscal agents to receive any such sums in New York shall not relieve the Republic of its obligation to make the full payments provided in this section, and the Republic agrees that in such event, it will make, or cause to be made, such payments in gold dollars directly to the fiscal agents in the city of New York.

SEC. 2. The fiscal agents shall apportion and apply the moneys received by them pursuant to the provisions of section 1 of this article as follows:

(a) The fiscal agents shall set aside out of such moneys received by them in each semiannual period the full amount necessary to pay the interest maturing on the next succeeding interest payment date on the first-series bonds then outstanding, and shall apply or cause to be applied such moneys to the payment of such interest maturing on such next succeeding interest-payment date. Interest coupons of first-series bonds presented for payment at the offices of the paying agents for the first-series bonds in cities outside the United States of America in accordance with the terms of such bonds or this agreement shall be paid by such paying agents at the bankers' buying rate for dollar sight exchange on the city of New York at the time of presentation in the respective cities, and such paying agents shall reimburse themselves for such disbursements by means of sight drafts drawn on the fiscal agents, payable in the city of New York in dollars for the amount thereof, which said drafts the fiscal agents shall pay on behalf of the Republic upon presentation thereof out of moneys set aside for such interest. The fiscal agents shall notify each of the paying agents by cable when sufficient moneys have been paid by the Republic and set aside by the fiscal agents for the payment of the interest maturing on each interest payment date on all the first-series bonds at such time outstanding in accordance with the provisions of this agreement, and the respective paying agents shall not pay any interest coupons presented to them unless they shall have received the proper notification by cable.

(b) The fiscal agents shall set aside the balance of such moneys received by them in each semiannual period as a sinking fund for the redemption of the first-series bonds on behalf of the Republic on the next succeeding interest payment date and shall apply the same, or cause the same to be applied, to such redemption on such succeeding interest payment date in the manner hereinafter in section 3 provided.

SEC. 3. The moneys set aside by the fiscal agents in each semiannual period, pursuant to subsection (b) of section 2 of this article, together with any amounts carried forward from the next preceding semiannual period, pursuant to section 5 of this article, shall be applied by the fiscal agents to the redemption of first-series bonds on the next succeeding interest payment date (the first application to be made on June 1, 1928, and subsequent applications to be made on each interest payment date thereafter) at the redemption price of 100 per cent of the principal amount thereof and accrued, unpaid interest thereon to such interest payment date in the manner and at the places hereinafter in this section provided; and the fiscal agents are hereby authorized and empowered to redeem with such moneys at said redemption price on each such interest payment date and at the places and in the manner hereinafter in this section provided, in the name and on behalf of the Republic, and at its expense, a principal amount of first-series bonds equal to the amount of such sinking-fund instalment, plus any such amounts carried forward. The fiscal agents shall determine, by lot, in any usual manner deemed fair by the fiscal agents, the serial numbers of the first-series bonds to be redeemed, and furnish a notarial certificate thereof to the Republic. Notice of each such redemption shall be given by the fiscal agents on behalf of the Republic in each city in which any of the first-series bonds which are to be redeemed may be presented for payment, at the times and in the manner specified in the case of partial redemption of bonds of the loan at the option of the Republic in section 2 of article 3 hereof. From and after the date so set for redemption, notice having been so given by publication, and the moneys sufficient for such

redemption having been paid to the fiscal agents, the first-series bonds so called for redemption shall cease to bear interest and, upon presentation and surrender in accordance with said published notices, at the office of either of the fiscal agents or such paying agents at which such first-series bonds may be presented for payment, or such first-series bonds, together with all coupons thereto appertaining maturing on and after said redemption date, said first-series bonds shall be paid by the Republic at the principal amount thereof and accrued interest to such redemption date. Bonds called for redemption and presented for payment, of such first-series bonds, together with all coupons in cities outside the United States of America in accordance with the terms of such bonds or this agreement shall be paid by such paying agents at the bankers' buying rate for dollar sight exchange on the city of New York at the time of presentation in the respective cities, and such paying agents shall reimburse themselves for such disbursements by means of sight drafts drawn on the fiscal agents in the city of New York in dollars for the amount of the redemption price, which said drafts the fiscal agents shall pay on behalf of the Republic upon presentation thereof out of moneys set aside for such redemption. The fiscal agents shall notify each of the paying agents by cable when sufficient moneys have been paid by the Republic and set aside by the fiscal agents for the payment of the redemption price of all first-series bonds so called for redemption, and the respective paying agents shall not pay or redeem any first-series bonds presented to them unless they shall have received the proper notification by cable. If any first-series bonds so called for redemption shall not be paid on presentation thereof, said first-series bonds shall continue to bear interest at the rate of 6 per cent per annum upon the principal amount thereof until payment. If any first-series bond so presented for redemption shall not be accompanied by the coupon thereto appertaining maturing on the redemption date, then said first-series bond shall be paid at the redemption price aforesaid, less the face amount of such coupon.

SEC. 4. Accrued unpaid interest on first series bonds redeemed for the sinking fund shall not be paid by the fiscal agents out of moneys set aside for the sinking fund, pursuant to subsection (b) of section 2 of this article, nor out of any other moneys in the sinking fund, but shall be paid out of moneys set aside pursuant to subsection (a) of section 2 of this article for payment of interest on all the first series bonds.

SEC. 5. Any odd amounts of money applicable to the redemption of first series bonds for the sinking fund amounting to less than the sum required to redeem one first series bond of the smallest denomination outstanding and which can not therefor be applied to the redemption of first series bonds on the next succeeding interest payment date, shall be carried over and applied with the moneys set aside for the sinking fund during the next succeeding six months period to the redemption of first series bonds.

SEC. 6. All first series bonds redeemed for the sinking fund, pursuant to the provisions of this article, and all coupons thereto appertaining, shall immediately upon such redemption be canceled by the fiscal agents or the paying agents through whom such redemption is made and delivered at convenient periods to a representative of the Republic for that purpose, or sent by registered mail to the nearest embassy or legation of the Republic at the risk and expense of the Republic: *Provided*, however, that all bonds redeemed at the office of a paying agent shall first be sent by registered mail to the fiscal agents at the risk and expense of the Republic. No first series bonds shall be issued in place of first series bonds so redeemed and canceled.

SEC. 7. No expenses of any character incurred by the fiscal agents or the paying agents in connection with the administration of the sinking fund shall be charged against the sinking fund or paid out of any moneys in the sinking fund, but all such expenses shall be borne by the Republic and shall be paid by the Republic to the fiscal agents or the paying agents upon their written or cabled demand.

#### ARTICLE VIII.—CONCERNING THE FISCAL AGENTS, THE PAYING AGENTS AND THE PERUVIAN REPRESENTATIVE

SECTION 1. The Republic hereby appoints J. & W. Seligman & Co. and the National City Bank of New York as fiscal agents of the Republic in accordance with the provisions of law No. 5930, enacted December 17, 1927, and the provisions of law No. 4500, enacted March 9, 1922, and said J. & W. Seligman & Co. and the National City Bank of New York are, by virtue of said office, appointed

as fiscal agents for the service of the bonds of the loan of all series, which appointment J. & W. Seligman & Co. for itself and the National City Bank of New York for itself hereby accept. Any successor firm, association, or corporation carrying on the business of either J. & W. Seligman & Co. or the National City Bank of New York shall be deemed to be one of the fiscal agents. The fiscal agents may each of them resign their functions, powers, rights, and duties hereunder and become and remain fully discharged from all further duty and responsibility hereunder upon giving 60 days' notice thereof in writing sent by registered mail addressed to the Minister of Finance of the Republic, or such other notice as the Republic may accept as sufficient, and upon payment of any moneys or securities or deposit with, and upon delivery of any bonds of the loan intrusted to them under any provision of this agreement to their respective successors. If either of the fiscal agents, or its successor, but not the other of them, shall be disqualified from acting as such by ceasing to exist, ceasing to do business, or ceasing to maintain an office in the borough of Manhattan, in the city and State of New York, or shall resign as one of the fiscal agents, the other fiscal agent, or its successor, shall assume all the duties of both fiscal agents and no successor to the fiscal agent, or its successor, which shall have been so disqualified or have resigned shall be designated by the Republic. If both the fiscal agents, or their respective successors, shall be so disqualified or have resigned, a successor or successors shall be designated by the Republic as fiscal agents (which shall in every case be a bank or trust company having a paid-in capital and surplus of at least \$10,000,000 and having a principal office in the borough of Manhattan, city and State of New York), and the Republic shall forthwith publish notice of such appointment at least once a week for at least four successive weeks in every city in which any of the bonds are payable, in each instance upon any day of the week, in a daily newspaper published and of general circulation in each of said cities.

SEC. 2. The Republic, at the request at any time or from time to time of the fiscal agents, shall appoint such banks or banking firms in one of more city or cities outside the United States of America as paying agents for the first-series bonds or for the bonds of any one or more additional series of the loan as shall be nominated by the fiscal agents and be satisfactory to the Republic. Each of the paying agents, now or hereafter appointed, may resign its or their functions, powers, rights, and duties hereunder and become and remain fully discharged from any further duty or responsibility hereunder upon giving 60 days' notice in writing sent by registered mail to the Minister of Finance of the Republic and to the fiscal agents, or such other notice as the Republic and the fiscal agents may accept as sufficient, and upon payment of any moneys deposited with and upon delivery of any bonds of the loan intrusted to it or them under any provision of this agreement, to the fiscal agents or to its or their successor or successors. If any such paying agent, or any successor, shall be disqualified from acting as such by ceasing to exist, ceasing to do business or ceasing to maintain an office in the city in which appointed to act, or shall resign as such paying agent, a successor nominated by the fiscal agents and satisfactory to the Republic shall be designated by the Republic, and the Republic shall forthwith publish notice of any such designation by it made at least once a week, for at least four successive weeks, in each instance upon any day of the week, in a daily newspaper printed in the official language of the city in which such paying agent is appointed to act and published and in general circulation in such city.

SEC. 3. The fiscal agents and the paying agents, and each of them, shall be protected by the Republic in acting upon any notice, demand, waiver, request, consent, opinion, certificate, report, statement, list, communication, letter, telegram, cablegram or radiogram, bond, coupon, or other paper or document believed by them to be genuine and to have been signed, sent, or presented by the proper party or parties.

SEC. 4. The Republic, the fiscal agents, and the paying agents, and each of them may deem and treat the bearer of any bond of any series which shall not at the time be registered as to principal, and the bearer of any coupon for interest on any bond, whether such bond shall have been registered or not, as the absolute owner of such bond or coupon for the purpose of receiving payment thereof and for all other purposes whatsoever and neither the Republic, the fiscal agents, nor the paying agents nor any one of them shall be affected by any notice to the contrary. The Republic, the fiscal agents, and the paying

agents, and each of them, may deem and treat the registered owner of any bond which is registered as to principal, as the absolute owner of such bond for all purposes except the payment of coupons, and neither the Republic, the fiscal agents, nor the paying agents shall be affected by any notice to the contrary. The Republic agrees to indemnify and save harmless the fiscal agents and the paying agents, and each of them, from and against any and all liability, costs, charges, or expenses incurred by so treating any such bearer or registered owner.

Sec. 5. The fiscal agents and the paying agents may each of them exercise their powers and perform their duties by or through such attorneys, appraisers, accountants, agents, and other employees, as they may deem advisable, and the compensation of such persons shall be deemed a part of the expenses of the fiscal agents and the paying agents, respectively. The fiscal agents and the paying agents shall none of them be answerable for the act, default, or misconduct of any such attorney, appraiser, accountant, agent, or other person employed or approved by them, respectively, if selected with reasonable care; nor shall the fiscal agents or the paying agents, or any of them, be liable for any action whatsoever taken by them hereunder, except each for its or their own wilful misconduct.

Sec. 6. All the usual expenses incurred in good faith by the fiscal agents, or the paying agents, or any of them, in connection with the drawing of bonds of any series of the loan or the payment of the principal of, or interest upon, such bonds, or otherwise in the service of such bonds, including counsel fees, cost of cabling, and the cost of publishing notices, etc., shall be paid by the Republic from time to time on demand of the fiscal agents.

Sec. 7. The Republic agrees to pay to the fiscal agents as compensation for their services one-quarter of one per cent ( $\frac{1}{4}$  per cent) of all amounts paid to the fiscal agents for the payment of interest on bonds of the loan of any and all series at any time or times outstanding and one-quarter of one per cent ( $\frac{1}{4}$  per cent) of all amounts paid to the fiscal agents for the sinking fund or sinking funds in respect of, and for the payment of the principal of, at their maturity, or upon the redemption of, or otherwise, bonds of the loan of any and all series at any time or times outstanding, and also the expenses of the fiscal agents in connection with such agency. Such compensation shall be payable at the principal office or offices of the fiscal agents in the city and State of New York semi-annually and shall be added to the last monthly installment of each semi-annual payment for the service of interest on, and amortization of, the bonds of each series in respect of which such compensation is payable, but such expenses shall be paid from time to time upon demand of the fiscal agents. The reasonable expenses of the paying agents in connection with such agencies shall be added to the expenses of the fiscal agents and paid by the Republic to the fiscal agents from time to time upon their demand and shall by them be paid over to the paying agents when received.

Sec. 8. Any moneys received by the fiscal agents and the paying agents, or their successors, under any provision of this agreement (anything herein to the contrary notwithstanding) may be treated by them, until they are required to pay out the same conformably herewith, as a general deposit, and they shall not be required to segregate any moneys deposited with them. The fiscal agents shall allow to the Republic on all deposits received by them for the service of bonds of the loan of any and all series interest at the rates customarily allowed by banks or trust companies in the city of New York on similar deposits under the rules of the New York Clearing House Association. Such interest on deposits received by the fiscal agents shall be allowed for the period or periods commencing with the first day of the calendar month next succeeding the date of the receipt of such deposit and ending on the day next preceding the interest payment date on which such deposits are required to be disbursed in accordance with this agreement.

The general accounts connected with the service of the first-series bonds and generally with all the bonds of the loan shall be kept by the fiscal agents in the city and State of New York in United States of America dollars.

Sec. 9. The fiscal agents, the paying agents and each of them, shall be protected in relying upon a translation of any document executed in the Spanish language if certified to them by the Minister of Finance of the Republic or by any consul general of the Republic, to be a correct translation of the original; but in the absence of such certificate the fiscal agents and the paying agents shall none of them be liable for any action or failure to take action based upon a mistake in the translation of any such document.

SEC. 10. The fiscal agents and the paying agents shall none of them be personally liable save each for its or their own willful default or gross negligence, and none of them shall be personally liable for the obligations, acts or omissions of any of the others.

SEC. 11. Neither the fiscal agents, nor the paying agents, nor any of them, shall be compelled to do any act or to make any payments hereunder or in respect hereof unless put in funds for the purpose. Whenever any provision is made herein for the payment of moneys by the fiscal agents, or by the paying agents, or by any of them, at any time, the fiscal agents and paying agents shall none of them in any event be liable beyond the amount of moneys deposited with them, respectively, for such purpose.

SEC. 12. The fiscal agents, the paying agents, or any member of any firm or any officer of any corporation constituting the same, may become the owners of the bonds and interest coupons of the loan, of any series, and may engage in or be interested in any financial or other transaction with the Republic or may act as depositary, trustee, or agent of any committee or body of the holders of the bonds of the loan, of any series, with the same rights which they would have if they were not fiscal agents or paying agents or a member of any firm or an officer of any corporation constituting the same.

SEC. 13. The fiscal agents, and each of them, as the representatives of the holders of the bonds of any or all series of the loan at any time outstanding, shall not be under any obligation to take any action in respect to the execution or enforcement of any of the obligations or undertakings of the Republic set forth in or contemplated by any of the bonds of any series of the loan, this agreement, or any agreement executed in connection herewith or supplemental hereto, which, in their or its opinion, would be likely to involve them or it in expense or liability, unless one or more of the holders of such bonds shall, as often as required by the fiscal agents, or either of them, furnish adequate security or indemnity against such expense or liability; and the fiscal agents, and each of them, shall not be required to take notice of any default in the payment of any of the bonds, or in the observance or performance of any of the covenants contained in the bonds, or this agreement, or any agreements executed in connection herewith or supplemental hereto, or that any event of default has happened, and the fiscal agents, and each of them, may assume that no such default has occurred unless notified in writing of the happening of such default by the holders of at least 25 per cent in amount of the bonds of any or all series of the loan then outstanding; and the fiscal agents, and each of them, shall not be required to take action in respect of such default involving expense or liability except upon the written request of the holders of not less than 25 per cent in amount of the bonds of any or all series of the loan then outstanding and unless tendered adequate security and indemnity, as aforesaid, anything herein contained to the contrary notwithstanding; but neither such notice or request nor the absence thereof shall affect any discretion herein given to the fiscal agents, or either of them, to determine whether they, or either of them, shall take any action in respect of any such default, or to take any action without such request.

SEC. 14. The term "Peruvian representative" as used in this agreement shall be construed to mean the company, firm, or responsible individual designated by the fiscal agents to act as such with the duties, among others, provided in article 7 hereof. The Peruvian representative may, upon 60 days written notice, delivered to the fiscal agents, resign its trust and duties hereunder and the fiscal agents shall have the right to terminate the appointment of any such Peruvian representative by giving 30 days written notice of their intention so to do to such Peruvian representative and to the Republic and to the *caja* or its successor. Upon any such termination the fiscal agents shall have the right to designate, in the manner herein provided for original appointment, a successor or successors of the Peruvian representative who shall have resigned or whose appointment shall have been terminated.

The Peruvian representative shall give, if requested by the Republic, a bond of a responsible surety company in favor of the Republic in a sum not exceeding \$300,000 as surety for the faithful discharge of its duties hereunder. The expenses of any such bond shall be paid by the Republic.

The Republic agrees to pay to the Peruvian representative as compensation for its services in receiving and remitting deposits for the service of the bonds of the loan of any and all series outstanding hereunder a commission of one-quarter of 1 per cent on the sums deposited with the Peruvian representative for such purpose and will also pay all reasonable expenses incurred in good

faith by the Peruvian representative in connection with its proper duties under this agreement, such commission to be paid upon the deposit with the Peruvian representative of any and all sums hereunder and such expenses to be paid upon demand.

Any moneys received or collected by the Peruvian representative under any provision of this agreement shall be treated by it, until required to pay out the same conformably herewith, as a general deposit and it shall not be required to allow any interest thereon to the Republic.

The Peruvian representative shall not be personally liable save for its own willful default or gross negligence.

#### ARTICLE IX—GENERAL PROVISIONS

SECTION 1. The Republic, in conformity with its constitution and laws, and the fiscal agents, from time to time and at any time, subject to any restrictions of this agreement, may, and when so required by the provisions of this agreement shall, enter into one or more agreements supplemental hereto and which shall thereafter form a part hereof, for any one or more of the following purposes:

(a) To provide for the creation and issue of bonds of additional series of the loan, to set forth the terms of such bonds, to provide for payments for the service thereof, to state the security therefor, if any, and otherwise generally to provide therefor.

(b) To provide for the creation and enforcement of such liens or charges on revenues or assets of the Republic as may be required pursuant to the covenants of the Republic set forth in sections 5 and 6 of Article V hereof and in general to make such additional covenants supplemental to or in furtherance of the covenants made by the Republic in Article V hereof or otherwise under this agreement or under any agreement supplemental hereto as may be necessary.

(c) To add such other limitations to be thereafter observed to the limitations on the creation and issue of bonds of additional series of the loan, the application of the proceeds thereof, or otherwise, as may be advisable; or to add to the covenants and agreements of the Republic for the protection of the bondholders, or otherwise, as may be advisable.

(d) To make such further agreements in respect to the collection or deposit of revenues of the Republic as may be required by the provisions of Article VI hereof.

(e) To make such other provisions in regard to matters or questions arising under this agreement, or any agreements executed in connection herewith or supplemental hereto, as may be necessary or desirable and not inconsistent with the provisions of this agreement and which in the opinion of the fiscal agents shall not impair or endanger any engagements or undertakings of the Republic in respect to the bonds of the loan of any series.

The fiscal agents are hereby authorized to join with the Republic in the execution of any such supplemental agreements, to agree to the further stipulations which may be therein contained, and to accept as the representative of the holders of the bonds of the loan of all series the further engagements and undertakings of the Republic that may be made therein. In case of the delivery of any such supplemental agreement or agreements, express reference thereto may be made in the text of the bonds of any additional series of the loan created thereafter.

Any such supplemental agreement shall be construed in connection with and as a part of this agreement and the covenants thereof shall be deemed, as to the subject matter of such covenants, covenants of this agreement.

SEC. 2. Whenever, according to the provisions of this agreement, any notice, request, or instruction, or order, for the payment of money or delivery of securities or otherwise may be required to be given by one party to another, it shall be deemed sufficient notice, except as otherwise herein expressly provided, if given in writing in English or in Spanish, as follows:

(a) If from the fiscal agents to the Republic (1) by registered letter or (2) by cablegram or radiogram, and confirmed by letter, addressed to the Minister of Finance of the Republic at Lima, Peru, or to the ambassador of the Republic to the United States of America, at Washington, in the District of Columbia, United States of America, over the signature of both the fiscal agents which may be signed by one of them.

(b) If from the Republic to the fiscal agents (1) by registered letter or (2) by cablegram or radiogram, and confirmed by letter, delivered to the fiscal agents

at the office of J. & W. Seligman & Co., No. 54 Wall Street, in the city and State of New York, United States of America, or at such other address as may be designated by the fiscal agents from time to time, over the signature of the Minister of Finance of the Republic, or his representative, or over the signature of the ambassador of the Republic to the United States of America.

SEC. 3. This agreement shall be executed in the English language and may be executed in one or more counterparts, each of which shall be deemed to be an original. There shall be attached to each executed counterpart a duly authenticated copy of the supreme resolution hereinabove mentioned.

SEC. 4. In case any one or more of the covenants and agreements contained in this agreement or in the bonds should be invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining covenants and agreements contained herein and in the bonds shall be in no wise affected, prejudiced, or disturbed thereby.

SEC. 5. Whenever reference is herein made to the Republic, it shall be deemed to apply to any successor sovereign Government which may at any time during the life of this agreement govern the major portion of the territory now embraced within the territorial boundaries of the Republic.

SEC. 6. This agreement shall be interpreted and construed in accordance with the laws of the State of New York in the United States of America as though it had been made and were to be performed wholly within the territorial limits of said State.

In witness whereof, Republica del Peru (Republic of Peru) has caused this agreement to be executed on its behalf in four counterparts by his excellency, Senor Don Manuel G. Masias, the Minister of Finance of the Republic, thereunto duly authorized, as aforesaid, and J. & W. Seligman & Co. has caused this agreement to be signed on its behalf in a like number of counterparts by Broderick Haskell, Jr., its attorney in fact, thereunto duly authorized, and the National City Bank of New York has caused this agreement to be signed on its behalf in a like number of counterparts by Claude W. Calvin, its attorney in fact, thereunto duly authorized, all as of the day and year first above written.

REPUBLICA DEL PERU,  
By M. G. MASIAS,  
*Minister of Finance.*  
J. & W. SELIGMAN & Co.,  
By BRODERICK HASKELL, Jr.,  
*Attorney in Fact.*  
THE NATIONAL CITY BANK OF NEW YORK,  
By CLAUDE W. CALVIN,  
*Attorney in Fact.*

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EXHIBIT A

[Form of first-series bonds]

REPUBLIC OF PERU (REPUBLICA DEL PERU) PERUVIAN NATIONAL LOAN 6 PER CENT  
EXTERNAL SINKING FUND GOLD BOND, FIRST SERIES

Dated December 1, 1927. Due December 1, 1960.

Republica del Peru (Republic of Peru), herein called the Republic, for value received, promises to pay to the bearer of this bond on December 1, 1960, the sum of (\$——) in gold coin of the United States of America of the standard of weight and fineness existing on December 1, 1927, and to pay interest thereon from December 1, 1927, until the principal of this bond shall be paid, in like gold coin, at the rate of 6 per cent per annum, semiannually on June 1 and December 1 in each year, upon presentation and surrender of the coupons hereto annexed as they severally mature. Such principal and interest shall be paid, at the option of the holder hereof, in gold coin of the United States of America of the standard aforesaid, in the borough of Manhattan, in the city and State of New York, United States of America, at the principal office of either of the fiscal agents of the Republic, J. & W. Seligman & Co. and The National City Bank of New York, or their respective successors, or in English pounds sterling, in the city of London, England, at the principal office of either of the London paying agents, Seligman Bros. and The National City Bank of New York, or their respective successors, or in Dutch guilders, in the city of Amsterdam,

Holland, at the principal office of any of the Amsterdam paying agents, Pierson & Co., Netherlands Trading Society, and Mendelssohn & Co., or their respective successors, or in Swiss francs, in the cities of Zurich or Basle, Switzerland, at the principal office in each of said cities of the Swiss paying agent, Credit Suisse, or its successor, in each case except the first at the bankers' buying rate for dollar sight exchange on the city of New York at the time of presentation for payment in such cities. Such principal and interest shall be paid in every case free from and without deduction or diminution for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed, levied, or assessed by the Republic or by any province, municipality, or other taxing authority therein or thereof, and shall be paid in time of war as well as in time of peace and irrespective of the citizenship or residence of the holder hereof.

This bond is one of a series of bonds which have been designated "6 per cent external sinking fund gold bonds, first series" (herein called the first series bonds), limited to \$50,000,000, principal amount, at any one time outstanding, duly authorized by law No. 5930, enacted by the Congress of the Republic, dated December 17, 1927, being the first series of bonds of a loan designated "Peruvian national loan" (herein called the loan) duly authorized by said law. The first series bonds have been issued under a fiscal agency and loan agreement dated as of December 1, 1927, between the Republic and the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank of New York (herein called the fiscal agents), to which reference is hereby made for a statement of the terms and conditions upon which the first series bonds have been issued, a statement of the restrictions upon the issue of bonds of additional series of the loan, and a statement of the covenants made by the Republic in respect to the security and service of the first series bonds, to the benefit of which covenants the holder of this bond is entitled.

The first series bonds are subject to redemption, in whole or in part, at the option of the Republic, on any interest payment date at their principal amount plus accrued unpaid interest to the date designated for redemption upon notice given in each city in which the first series bonds are made payable, by publication once a week for at least four successive weeks, in each instance on any day of the week, each publication to be made in at least one daily newspaper published and of general circulation therein, the first publication to be made at least 60 days, and not more than 90 days, prior to the date designated for redemption, as more fully provided in said fiscal agency and loan agreement.

Until all the first series bonds shall have been paid or redeemed the Republic will pay, or cause to be paid, semiannually to the fiscal agents for the semi-annual service of interest and amortization of the first series bonds the sum of \$1,750,000 in gold coin of the United States of America or equal to the standard aforesaid, which semiannual sum is calculated to be sufficient to pay all interest charges and to provide a cumulative sinking fund sufficient to retire all the first series bonds at or before maturity by semiannual drawings for redemption at their principal amount. The fiscal agents shall apply such moneys received by them in each semiannual period to the payment of interest maturing on the next succeeding interest payment date on the first series bonds then outstanding and shall apply the balance of such moneys so received in each semiannual period to the redemption by lot of first series bonds on the next succeeding interest payment date at their principal amount on notice given in each city in which the first series bonds are made payable, by publication once a week for at least four successive weeks, in each instance on any day of the week, each publication to be made in at least one daily newspaper published and of general circulation therein, the first publication to be made at least 60 days, and not more than 90 days, prior to the date designated for redemption, as more fully provided in said fiscal agency and loan agreement.

The Republic covenants that so long as any of the first series bonds shall be outstanding it will maintain an office or agency in the borough of Manhattan, in the city and State of New York, where the first series bonds and interest coupons may be presented for payment and where notices or demands in respect of the first series bonds and interest coupons may be served.

Subject to the provisions of said fiscal agency and loan agreement, the holder hereof, by the acceptance hereof, constitutes and appoints the fiscal agents, and each of them, the representatives or representative of the holder for the purpose of entering into any agreement or agreements supplemental to said fiscal agency and loan agreement not inconsistent therewith and which in the opinion of the fiscal agents shall not impair or endanger the agreements and under-

takings of the Republic set forth therein, and for the purpose of enforcing all obligations of the Republic set forth herein and in the coupons appertaining hereto and in said fiscal agency and loan agreement and any agreement supplemental thereto for the benefit of the holder hereof, to which appointment the Republic hereby consents and agrees.

This bond and the coupons appertaining hereto shall pass by delivery.

This bond shall not become valid or obligatory for any purpose until it shall be authenticated by the certificate of the National City Bank of New York as authenticating agent hereon endorsed.

In witness whereof, Republica del Peru has caused this bond to be prepared bearing a facsimile of the coat of arms of the Republic as a seal of the Republic and a facsimile of the signature of its Minister of Finance, and has caused this bond to be manually signed on its behalf by its ambassador to the United States of America, or other representative of the Republic thereunto duly authorized, and the coupons for said interest bearing the facsimile signature of its Minister of Finance, to be hereto annexed.

Dated, December 1, 1927.

REPUBLICA DEL PERU,  
By \_\_\_\_\_.

#### FORM OF AUTHENTICATING AGENT'S CERTIFICATE

This is to certify that this bond is one of the Peruvian national loan 6 per cent external sinking fund gold bonds, first series, described in the within-mentioned fiscal agency and loan agreement.

THE NATIONAL CITY BANK OF NEW YORK,  
*Authenticating Agent,*  
By \_\_\_\_\_,  
*Authorized Officer.*

#### FORM OF COUPON

On \_\_\_\_\_, 19—, unless the bond hereinafter mentioned shall have been called for previous redemption, Republica del Peru (Republic of Peru) will, on surrender hereof, pay to bearer, at his option, in gold coin of the United States of America of or equal to the standard of weight and fineness existing on December 1, 1927, in the borough of Manhattan, in the city and State of New York, United States of America, at the principal office of either of the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank of New York, or their respective successors, or in English pounds sterling, in the city of London, England, at the principal office of either of the London paying agents, Seligman Bros. and the National City Bank of New York, or their respective successors, or in Dutch guilders, in the city of Amsterdam, Holland, at the principal office of any of the Amsterdam paying agents, Pierson & Co., Netherlands Trading Society, and Mendelssohn & Co., or their respective successors, or in Swiss francs, in the cities of Zurich or Basle, Switzerland, at the principal office in each of said cities of the Swiss paying agent, Credit Suisse, or its successor, in each case except the first at the bankers' buying rate for dollar sight exchange on the city of New York at the time of presentation in such cities, (\$——) in gold coin of the United States of America of the standard aforesaid, in every case free from and without deduction or diminution for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed, levied, or assessed by the Republic of Peru or by any State, Province, municipality or other taxing authority therein or thereof, in time of war as well as in time of peace and irrespective of the citizenship or residence of such bearer, being six months' interest then due on its 6 per cent external sinking fund gold bond, first series, due December 1, 1960, No.

REPUBLICA DEL PERU,  
By \_\_\_\_\_,  
*Minister of Finance.*

In consideration of and upon the transfer to it of the right to collect or receive deposits of revenues of the Republic as contemplated by article 6 of the foregoing fiscal agency and loan agreement, Caja de Depositos y Consignaciones hereby covenants and agrees with the fiscal agents, for the benefit of the holders of the bonds of any and all series of the Peruvian national loan at

any time or from time to time outstanding, that it will collect, or receive deposit of, such revenues in accordance with the provisions of law No. 5746 and law No. 5931, of the Republic, and in accordance with the provisions of an agreement which, pursuant to article 9 of said law No. 5931, will be entered into between the Republic and the caja to carry out and give full effect to the provisions of said laws, and that it will duly and punctually apply and pay over, out of the revenues of the Republic which may be collected by or deposited with it pursuant to said law No. 5746, law No. 5931 and such agreement with the Republic, at the times and in the manner and amounts specified in article 7 of the foregoing fiscal agency and loan agreement and in the applicable provisions of any agreements executed in connection therewith or supplemental thereto, the sums required for the service of interest and amortization of the bonds of any and all series of the Peruvian national loan at any time or from time to time outstanding and all other sums payable in respect thereof, and will otherwise act in conformity with and comply with the provisions of said laws and such agreement with the Republic.

CAJA DE DEPOSITOS Y CONSIGNACIONES,  
By PEDRO LARRANAGA, GERENTE.

[SEAL.]

EXHIBIT No. 9

[Stamp—Ministerio de Hacienda y Comercio del Peru]

Agreement, dated December 29, 1927, between Republica del Peru (Republic of Peru), hereinafter called the Republic, represented by his excellency, Señor Don Manuel G. Masias, Minister of Finance of the Republic, thereunto duly authorized by supreme resolution dated December 29, 1927, issued with the approval of the Council of Minister, of the first part, and the Caja de Depositos y Consignaciones, hereinafter called the caja, represented by its manager, Señor Don Pedro Larranaga, of the second part, pursuant to the provisions of article 9 of law No. 5931.

ARTICLE 1. The Republic hereby charges the caja with the collection of all the revenues of the Republic of whatever origin and denomination, with the sole exceptions for the present of (1) the revenues given as specific guaranty of external loans of the Republic, the collection of which revenues, so long as the respective loans are outstanding, is irrevocably entrusted to special entities other than the caja, and (2) until such time as the executive power may judge convenient, the revenues of posts and telegraphs and such customs revenues as are not now given in guaranty for external loans of the Republic.

The caja shall begin on January 1, 1928, to collect the revenues intrusted to it pursuant to this article, such collection to include everything which may be collected from that date, including taxes when due. The revenues which the caja shall begin to collect on January 1, 1928, together with the amounts collected during the fiscal year 1926 and the offices, agencies or organizations now collecting the same, are set forth in Exhibit 1 hereto annexed and made a part hereof.

ART. 2. The Republic further authorizes and directs the caja to collect the revenues which are now given as specific guaranty for external loans of the Republic and whose collection is intrusted, so long as such external loans are outstanding, to entities other than the caja, as soon as such revenues are, respectively, freed from the liens now imposed upon them, and also to collect or receive in deposit as soon as the executive power may judge convenient, the revenues from posts and telegraphs, and such customs revenues as are not now given in guarantee for external loans of the Republic. The caja shall also collect, subject to the provisions of existing external secured loan contracts, all imposts, taxes, duties, and charges which may be established by the Republic in the future for whatever cause and denomination and all other revenues from whatsoever source which may hereafter be created by or may accrue to the Republic, the caja to being such collection immediately upon the establishment, creation or accrual thereof to the Republic.

ART. 3. The Republic further authorizes and directs the caja to receive for account of the Republic, commencing January 1, 1928, of (1) all moneys payable to the Republic in respect of each and every revenue given as specific guaranty of an external loan or loans of the Republic, the collection of which revenue, so

long as such loan or loans are outstanding, is irrevocably entrusted to an entity or entities other than the caja and (2) all consular revenues of the Republic collected in foreign countries, the moneys from which consular revenues shall be deposited to the order of the caja with such first class banking institutions as the caja may select in agreement with the fiscal agents, and such revenues thus deposited shall be under the control of the caja, as provided in article 4 of said law No. 5931.

The Republic represents that it has in the case of each revenue so given as specific guaranty for an external loan or loans of the Republic, directed and will cause the entity collecting such revenue to deposit with the caja all moneys payable to the Republic in respect thereof upon the Republic's becoming entitled to the same. Each such revenue, together with the external loan or loans for which such revenue is given as guaranty, the annual amount required for the service of such loan or loans and the entity entrusted with the collection of such revenue, is set forth in Exhibit 2 hereto attached.

Art. 4. The Republic will cause the offices, agencies, and organizations entrusted with the collection of revenues to be transferred, in conformity with the provisions of said law No. 5931 and this agreement, to the caja, to deliver to the caja all moneys held for account of the Republic, which the caja shall place to the order of the director of the treasury, all bills, tax bills, and amounts receivable, which the caja shall take over for collection, all other assets held for account of the Republic and, at least 15 days prior to date for any such transfer, all receipts, invoices, registers, archives, lists, and other data necessary or useful to collect or receive the deposit of such revenues.

Art. 5. The caja hereby covenants and agrees with the Republic and with the fiscal agents, hereinafter referred to, to collect or receive the deposit of the revenues of the Republic in accordance with the provisions of the foregoing articles of this agreement, said law No. 5746 and law No. 5931. The caja further agrees immediately to enlarge its collection department for such purpose and covenants and agrees with the Republic and the fiscal agents that, so long as any bonds of any series of the Peruvian national loan shall be outstanding, the by-laws and in general the legal organization of the caja shall not be modified or altered without the express consent of the fiscal agents given by their representative on the board of directors of the caja.

Art. 6. Attached hereto as Exhibit 3 is a photostatic copy of the fiscal agency and loan agreement, dated as of December 1, 1927, between the Republic, J. & W. Seligman & Co. and the National City Bank of New York, hereinafter referred to as the fiscal agency agreement. The caja declares that it is familiar with the provisions of said agreement and the obligations assumed by the Republic thereunder. The caja further declares that it is familiar with the provisions of law No. 5930, authorizing the creation of the Peruvian national loan, law No. 5746 and law No. 5931.

In accordance with the provisions of law No. 5931 and said fiscal agency agreement and commencing January 1, 1928, and thereafter so long as any bonds of any series of the Peruvian national loan shall be outstanding, the Republic hereby authorizes and directs the caja, and the caja hereby covenants and agrees, to apply the gross amounts of the revenues of the Republic collected by or deposited with it pursuant to said law No. 5746, law No. 5931 and this agreement, in each month to the payment to the fiscal agents, or their successors, of (1) the monthly proportion, that is to say, one-sixth part, of the semiannual service charges of the bonds of the Peruvian national loan of all series at the time outstanding, equally and ratably for each series and (2) all other amounts payable to the fiscal agents pursuant to the terms of the fiscal agency agreement and of the respective loan agreements under which the bonds of the respective series of the Peruvian national loan shall be issued, before making any disbursements of such moneys for any other purpose whatsoever, and to apply such moneys and to make each and every such payment in accordance with the provisions of said fiscal agency agreement and of the loan agreements under which the bonds of each series of the Peruvian national loan shall respectively be issued: *Provided, however,* That in the case of moneys collected by or deposited with the caja in respect of revenues now given in guaranty, as shown in Exhibit 2 hereto attached, for an outstanding loan of the Republic and so long as such revenues remain so pledged, the caja shall first apply the moneys collected or deposited in respect of each such revenue for the payment; as far as required, of the service of such loan in accordance with the terms of the agreement under which such loan was contracted.

The caja further agrees to pay from time to time to the fiscal agents; or to their successors, out of the moneys so collected or deposited with it, any other amounts which may be designated from time to time by the executive power of the Republic in order that the payments provided for in said law No. 5931, or in said fiscal agency agreement, or in any of the above mentioned loan agreements may be fully made.

The balance of the moneys so collected or deposited, after making the application of moneys and payments aforesaid, and after deducting monthly the administration and collection expenses and the commission of the caja, the interest due from the Government on the guaranty fund in accordance with article 6 of said law No. 5746, and the amounts required for the service of the internal debt of the Republic of 1889, 1898, and 1918, shall be placed by the caja to the order of the Director of the Treasury of the Republic.

ART. 7. The obligations assumed by the caja pursuant to the provisions of law No. 5931 or this agreement, are limited to the revenues of the Republic which may be collected by or deposited with the caja hereunder, law No. 5746 and law No. 5931; and, accordingly, the caja shall not be liable in any case to pay out of its own moneys, or out of the judicial, or administrative deposits from time to time in its custody, any sums on account of such obligations. This agreement and any other agreement which may be entered into by the caja with the Republic in connection with the collection, deposit, and application of revenues of the Republic pursuant to said law No. 5746 or said law No. 5931, shall be exempt of all kinds of imposts, taxes, duties, or contributions, created or to be created.

ART. 10. Subject to the provisions of said law No. 5931, this agreement and said fiscal agency and loan agreement, the caja shall have full discretion in connection with the administration of the revenues of the Republic to be collected by or deposited with the caja pursuant to said law No. 5746, law No. 5931, or this agreement, and the Government shall not grant any concessions to other agencies or individuals to manage any part of such revenues, and shall immediately cancel and repeal any and all contracts granting any such concessions inconsistent with said laws, said fiscal agency agreement or this agreement.

The caja will receive as full compensation for its services relating to the collection, deposit, and application of the revenues of the Republic, in accordance with law No. 5746, with law No. 5931, and with this agreement, the following annual commissions: On all amounts collected from  $\text{¢}$ . 1 to  $\text{¢}$ . 3,000,000, the commission will be 1 per cent; if the total amount collected should be more than  $\text{¢}$ . 3,000,000 and less than  $\text{¢}$ . 5,000,001, the commission will be 1 per cent on  $\text{¢}$ . 3,000,000, and three-fourths per cent on the balance from  $\text{¢}$ . 3,000,001 up to  $\text{¢}$ . 5,000,001; and if the total amount collected should be in excess of  $\text{¢}$ . 5,000,001, the commission for the caja shall be 1 per cent on  $\text{¢}$ . 3,000,000, three-fourths per cent on the balance from  $\text{¢}$ . 3,000,001 up to  $\text{¢}$ . 5,000,001, and one-half per cent on any amount over  $\text{¢}$ . 5,000,001.

ART. 8. As provided in article 10 of law No. 5931, the fiscal agents shall have the right, during the life of the Peruvian national loan, or while any bonds of any series of said loan are outstanding, to appoint an additional director on the board of directors of the caja, and his alternate, who shall enjoy, respectively, the same prerogatives, rights, and privileges enjoyed by the statutory directors of the caja. The term "fiscal agents," as used in this agreement, refers to J. & W. Seligman & Co., and the National City Bank of New York, fiscal agents of the Republic, and includes any successor, firm, partnership, or corporation carrying on the business of either J. & W. Seligman & Co., or of the National City Bank of New York.

ART. 9. If the caja, for any reason whatsoever, shall fail to make the payments specified herein, in said law No. 5931, said fiscal agency agreement, or in any other agreement which may be entered into by the Republic in connection with the issue and sale of any series of the bonds of the Peruvian national loan, the fiscal agents, or their successors, shall not be under any obligation to enforce rights against the caja, but shall also be entitled to demand such payments directly from the Republic. It is understood that if at any time the caja shall cease to collect, receive, or apply the revenues entrusted to it, or should fail to comply in any respect with its obligations in connection therewith, or should cease to exist, the executive power of the Republic, in agreement with the fiscal agents, shall immediately organize a special collecting agency,

acceptable to the fiscal agents, in the manner and for the purposes provided in article 8 of said law No. 5931.

ART. 11.—The caja, having organized the special collection department provided for in article 1 of law No. 5746 and being required by law No. 5931 to enlarge the same, shall be at liberty to retain present employees, to replace employees, to abolish offices, to change salaries and duties, and to designate new employees without any further restriction than that of excluding employees and replacing those against the employment of which the government may raise objection by written notice to the caja.

The employees to which this contract refers shall not come within the provisions of the employment law.

The government, in agreement with the caja, will present to congress a bill for the creation of a special fund which shall be devoted to cover the losses or damages arising from the misconduct or misfeasance of employees, the expenses in connection with gratuities, illnesses, or funerals of employees, the expenses of old age, retirement, and other similar pensions for such employees.

ART. 12.—So long as any bonds of any series of the Peruvian national loan shall be outstanding, the authorizations and directions of the Republic to the caja herein set forth to collect or receive the deposit of, and to apply, the revenues of the Republic, as well as the covenants and agreements of the caja herein contained, shall be irrevocable, and during such time this agreement may not be changed, modified, or rescinded in any respect except with the express consent of the fiscal agents: *Provided, however,* That the caja, upon six months' previous notice to the Republic and to the fiscal agents, may terminate its obligations hereunder and, after the organization by the executive power of the Republic, in accordance with article 8 of said law No. 5931, of a special collecting agency acceptable to the fiscal agents, which shall, immediately upon the termination of the obligations of the caja as herein stated, automatically assume all the rights and obligations in connection with collecting, receiving, or applying the revenues of the Republic pursuant to said law No. 5931 and this agreement and after payment to the Republic and to the fiscal agents of all sums respectively due to the Republic and the fiscal agents hereunder or under the agreement dated March 30, 1927, mentioned in article 15 hereof, the caja shall be relieved from its duty to collect, receive, and apply the revenues of the Republic. Upon any termination of this agreement, unless provision therefor satisfactory to the caja shall be made, the Republic shall pay to the caja all sums then due to it under the provisions of the said agreement dated March 30, 1927.

ART. 13.—The fiscal agents are parties to this agreement only for the purposes provided in articles 5, 6, 8, 9, and 12 hereof.

ART. 14.—Law No. 5746 and law No. 5931 are hereby incorporated into, and shall be considered as a part of, this agreement and said agreement dated March 30, 1927.

ART. 15.—Clauses 2, 3, 4, 5, 7, 9, 10, 14, 15, 16, and 23 of the agreement dated March 30, 1927, between the caja, the supreme government of Peru, and J. & W. Seligman & Co., as fiscal agents, are hereby canceled. All other provisions not inconsistent with this agreement shall remain in full force and effect and shall apply to the functions of the caja hereunder and to all the revenues hereby transferred for collection or deposit, or provided to be transferred for collection or deposit, to the caja.

REPUBLICA DEL PERU,  
By M. G. MASIAS,  
*Minister of Finance.*

CAJA DE DEPOSITOS Y CONSIGNACIONES,  
By PEDRO LABRANAGA,  
*Manager.*

J. & W. SELIGMAN & Co.,  
By BRODERICK HASKELL, JR.,  
*Attorney in Fact.*

THE NATIONAL CITY BANK OF NEW YORK,  
By CLAUDE W. CALVIN,  
*Attorney in Fact.*

[Stamp—Ministerio de Hacienda y Comercio Peru.]

## EXHIBIT No. 10

**BOND PURCHASE AGREEMENT BETWEEN REPUBLICA DEL PERU (REPUBLIC OF PERU) AND J. & W. SELIGMAN & CO. AND THE NATIONAL CITY CO., DATED OCTOBER 1, 1928—PERUVIAN NATIONAL LOAN, 6 PER CENT EXTERNAL SINKING FUND BONDS, SECOND SERIES.**

Agreement, dated October 1, 1928, between Republica del Peru (Republic of Peru), hereinafter called the Republic, acting by His Excellency, Senor Don Manuel G. Hasias, the Minister of Finance of the Republic, thereunto duly authorized by supreme resolution dated October 19, 1928, issued with the approval of the Council of Ministers, and J. & W. Seligman & Co., a co-partnership of the city and State of New York, United States of America, acting by Henry C. Breck, thereunto duly authorized, and the National City Co., a corporation duly organized and existing under the laws of the State of New York, United States of America, acting by Alexander J. Robertson, thereunto duly authorized, hereinafter collectively called the bankers.

The Republic represents:

(1) That it has executed and delivered a valid fiscal agency and loan agreement dated as of December 1, 1927, with J. & W. Seligman & Co. and the National City Bank of New York (hereinafter called the fiscal agency and loan agreement) providing for the creation of an external loan to be known as the Peruvian national loan (hereinafter called the loan), and has validly created the loan and issued a first series of bonds of the loan:

(2) That it has entered into a valid agreement dated October 1, 1928, with J. & W. Seligman & Co. and the National City Bank of New York supplemental to the fiscal agency and loan agreement (hereinafter called the supplemental agreement), a true and correct copy of which is annexed hereto and marked "Exhibit No. 1," providing for the issue of a second series of the bonds of the loan (hereinafter called the second series bonds) limited to \$50,000,000, in gold coin of the United States of America or the equivalent amount (in part) in English pounds sterling, to be known as the Peruvian national loan, 6 per cent external sinking fund gold bonds, second series (with appropriate changes for second series bonds payable in pounds sterling), and be payable as the Republic may determine prior to the issue thereof, (a) in New York in dollars and at any other place or places, if any, in the currency of the place of payment at the buying rate for dollar sight exchange on New York at the time of payment (hereinafter called the second series dollar bonds), or (b) in London in pounds sterling and in New York in dollars at the rate of \$4.8665 for £1 and at any other place or places, if any, in the currency of the place of payment at the buying rate for dollar sight exchange on New York or the buying rate for sterling sight exchange on London at the time of payment (hereinafter called the second series sterling bonds), all as more fully set forth in the supplemental agreement; and

(3) That the Republic is not in default or in arrears in the payment of any amounts due for principal, interest, or amortization or otherwise with respect to any of the external or internal loans or obligations, secured or unsecured, issued or guaranteed by the Republic and outstanding at the date of this agreement.

The Republic desires to issue and sell to the bankers and the bankers desire to purchase from the Republic certain of the second series bonds upon the terms and conditions hereinafter in this agreement set forth.

Now, therefore, this agreement witnesseth that, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed, and do hereby agree, as follows:

## ARTICLE I

SECTION 1. Subject to all the terms and conditions of this agreement, the Republic agrees to sell and deliver to the bankers and the bankers agree to purchase from the Republic and pay for, \$25,000,000, principal amount of second series dollar bonds, to be issued under and in accordance with the fiscal agency and loan agreement and the supplemental agreement at the price of 86 per cent of the principal amount thereof plus interest accrued from the date of said second series dollar bonds to the date of delivery thereof to the bankers or to the date of the issue of interim certificates pursuant to the provisions of this agreement, whichever date shall be earlier, plus one-half of the amount (if

any) by which the price at which said second series dollar bonds are offered by the bankers for public subscription, exclusive of accrued interest, exceeds 92½ per cent of the principal amount thereof.

Subject to all the terms and conditions of this agreement, the Republic also agrees that it will, if the bankers so elect by written or cabled notice to the Republic sent at least two days prior to the date of the public offering of said second series dollar bonds hereinafter provided for, sell and deliver to the bankers, at the purchase price or prices hereinafter provided for, all or such part as the bankers may elect of an additional \$10,000,000, principal amount, of second-series bonds which, at the option of the bankers to be exercised at the time of and specified in the above written or cabled notice, shall be wholly second series dollar bonds or wholly second series sterling bonds, or part second series dollar bonds and part second series sterling bonds as the bankers may specify in such written or cabled notice. If the bankers elect to take any part or all of the above additional \$10,000,000, principal amount, in second series sterling bonds, the amount so to be taken shall be converted into pounds sterling at the rate of \$4.8665 for £1 and the principal amount of second series sterling bonds to be purchased shall be the largest multiple of the smallest denomination in which the bankers may request second series sterling bonds to be delivered contained in such converted amount. The purchase price of any such second series dollar bonds shall be the same as that above provided for said \$25,000,000, principal amount, of second series dollar bonds. The purchase price of any such second series sterling bonds shall be 86 per cent of the principal amount thereof plus interest accrued from the date of such second series sterling bonds to the respective installment payment dates hereinafter referred to, plus one-half of the amount (if any) by which the price at which said second series sterling bonds are offered by the bankers or their associates for public subscription exceeds 92½ per cent of the principal amount thereof.

Delivery of all of the second series bonds to be purchased hereunder shall be made at the office of J. & W. Seligman & Co., 54 Wall Street, in New York, on a date to be specified by the bankers in a written notice to the fiscal agents and in a cable notice to the Republic, which notices shall be sent by the bankers at least three days previous to the date so specified and which specified date shall be not less than 10 days nor more than 20 days after the public offering of the second series dollar bonds to be purchased hereunder, provided that by mutual agreement between the Republic and the bankers the time for the delivery of the second-series bonds to be purchased hereunder may be advanced to such earlier date or extended to such later date as may be fixed by such agreement.

Payment of the second series dollar bonds to be purchased hereunder shall be made against delivery thereof to the bankers on the delivery date fixed as above provided by crediting the amount of the purchase price therefor (less an amount estimated by the bankers to be sufficient to cover the costs, taxes, expenses, and other items agreed to be paid by the Republic as hereinafter in section 4 of article 3 hereof provided) to the account of the Republic with the fiscal agents of the Republic.

Payment for the second series sterling bonds to be purchased hereunder shall be made by depositing the purchase price therefor in three installments as hereinafter provided (less any amount of the costs, taxes, expenses, and other items above referred to not deducted from the purchase price of the second series dollar bonds) for account of the Republic with such bank or bankers in London, England, as the fiscal agents may select. The installments of the purchase price shall be deposited at times and in amounts as follows: First installment, 30 per cent of the aggregate purchase price (exclusive of accrued interest), plus interest accrued on 30 per cent of the principal amount of the second series sterling bonds from the date thereof to the first installment payment date, less any amount of the costs, taxes, expenses, and other items above referred to not deducted from the purchase price of the second series dollar bonds, not later than 14 days after the public offering in London of the second series sterling bonds; second installment, 30 per cent of the aggregate purchase price (exclusive of accrued interest) plus interest accrued on 30 per cent of the principal amount of the second series sterling bonds from the date thereof to the second installment payment date, not later than 42 days after the public offering in London of the second series sterling bonds; and last installment, 40 per cent of the aggregate purchase price (exclusive of accrued interest) plus interest accrued on 40 per cent of the principal amount of the second series sterling bonds from the date thereof to the last installment payment date, not later than 84 days after the public offering in London of the second series sterling bonds.

The Republic agrees to instruct the fiscal agents prior to the delivery date for the second-series bonds to retain out of the proceeds of the second series dollar bonds to be credited to the account of the Republic, an amount equal to the monthly payments for interest and amortization on all of the second series bonds to be purchased hereunder accrued or to accrue thereon from the date of the second-series bonds to the end of the calendar month in which such credit shall have been made and to apply such moneys to the service of said second-series bonds in accordance with the provisions of the supplemental agreement. The proceeds of the second series sterling bonds and the balance of the proceeds of the second series dollar bonds to be credited to or deposited for account of the Republic as aforesaid shall be held by the fiscal agents or such bank or bankers and disposed of by them from time to time as provided in section 3 of article 4 of the supplemental agreement.

The bankers agree, subject to all the terms and conditions of this agreement, to make such public offering of the second series dollar bonds to be purchased hereunder on or before December 31, 1928, and to give the Republic at least two days' notice of the date selected for such public offering, provided, however, that the bankers may make such public offering on a "when, as, and if issued and received by the bankers and subject to the approval of Peruvian and American counsel" basis, and provided further, that the bankers may, if they deem advisable, postpone such public offering from time to time (but not later than December 31, 1928) by sending cable notice thereof to the Republic.

The bankers also agree, subject to all the terms and conditions of this agreement, to make or cause to be made, such public offering of the second series sterling bonds as may be purchased hereunder in London on or before December 31, 1928, and to give the Republic prompt notice of the date on which such public offering is made, provided, however, that the bankers may, if they deem advisable, postpone such public offering from time to time (but not later than said December 31, 1928) by sending cabled notice thereof to the Republic.

Sec. 2. Delivery of the second series dollar bonds to be purchased hereunder shall be made in the form of one or more temporary bonds of such denomination or denominations and in such proportions of each denomination as the bankers may request, and exchangeable for definitive engraved second series dollar bonds when ready for delivery. Delivery of the second series sterling bonds to be purchased hereunder shall be made in the form of one temporary bond in such form as the bankers may request and as may be necessary to comply with the custom of the London market and exchangeable for definitive engraved second series sterling bonds when ready for delivery. The second series dollar bonds to be purchased hereunder shall be payable in New York and in such other place or places, if any, as the bankers may request prior to the public offering thereof. The second series sterling bonds to be purchased hereunder shall be payable in London and in New York and in such other place or places, if any, as the bankers may request prior to the public offering thereof. The second series dollar bonds to be purchased hereunder in definitive engraved form shall be of such denominations and in such amounts of each denomination as the bankers may request and shall be executed and be in such form as to comply with the listing requirements of the New York Stock Exchange. The second series sterling bonds to be purchased hereunder in definitive engraved form shall be of such denominations and in such amounts of each denomination as the bankers may request and shall be executed and be in such form as to comply with the listing requirements of the London Stock Exchange.

The Republic agrees to execute and deliver to the fiscal agents in New York the temporary second series dollar bonds and second series sterling bonds to be purchased hereunder at least one day prior to the date fixed by the bankers for the public offering of the second series dollar bonds and at the time of such delivery to irrevocably instruct the fiscal agents in writing or by cable to authenticate and deliver to the bankers said temporary second series dollar bonds and second series sterling bonds on the delivery date therefor against payment for the second series dollar bonds as provided in section 1 of this article.

Sec. 3. If the second series dollar bonds to be purchased hereunder are not delivered on the date specified in such notice by the bankers in accordance with section 1 of this article, or if any of the conditions set forth in section 1 of article 2 hereof have not been complied with before the date for the delivery of and payment for the second series dollar bonds to be purchased hereunder, and the bankers shall extend the time for delivery of said second series dollar bonds, the bankers may issue or cause to be issued interim certificates exchangeable

for second series dollar bonds, in temporary or definitive form, when, as, and if issued and received by the bankers and subject to the approval of their Peruvian and American counsel. Said interim certificates shall also provide that if for any reason the Republic may fail to deliver said temporary or definitive second series dollar bonds in accordance with the terms of this agreement, the holders of the interim certificates shall be entitled to receive a refund of the retail purchase price of the second series bonds represented thereby (including the accrued interest paid as a part of such purchase price) with interest at the rate of 6 per cent per annum on the principal amount of the second series bonds represented thereby from the date of the issue of the interim certificates until the date fixed for such refund; and in case such interim certificates are issued and the Republic fails to deliver said second series bonds the Republic hereby covenants and agrees to pay to the bankers on demand the full amount of such interest.

If the Republic shall deliver one or more temporary second series dollar bond or bonds of large denomination or denominations, the bankers may issue or cause to be issued interim certificates exchangeable for definitive engraved second series dollar bonds when ready for delivery.

Pending the delivery of the second series sterling bonds to be purchased hereunder, in definitive form, the bankers, or any bank or bankers associated with them, shall be, and hereby are, authorized to issue in the name and on the behalf of the Republic scrip certificates exchangeable for said second series sterling bonds and in such form as may be necessary to comply with the custom of the London market, or of any other market in which said second series sterling bonds may be offered for sale, and the Republic agrees at the request of the bankers to deliver to the bankers or such bank or bankers associated with them on or before the date of the public offering of said second series sterling bonds such letter or letters as the bankers may require and in such form as may be satisfactory to counsel for the bankers, or their said associates, authorizing the bankers, or their said associates, to issue such scrip certificates in the name and on the behalf of the Republic. The public offering price of said second series sterling bonds may be made payable in installments on such dates and in such amounts on each such date as the bankers, or their associates, may determine: *Provided, however*, That the last of such installments shall be payable within three months of the date of such public offering. Each such scrip certificate shall have annexed thereto an interest coupon payable on the interest payment date for said second series sterling bonds next succeeding the date of issue of such scrip certificates, entitling the bearer to interest on the several installments paid in respect of the public offering price therefore at the rate of 6 per cent per annum from the respective dates specified for the payment of such installments to such interest payment date which interest shall be paid by the bankers or their associates out of the first semiannual payment of interest payable by the Republic on the second series sterling bonds on April 1, 1929, when received.

#### ARTICLE II

**SECTION 1.** The obligation of the bankers to purchase and pay for the second series dollar bonds to be purchased hereunder and for the second series sterling bonds to be purchased hereunder, as provided in article 1 of this agreement, is subject to the conditions that on or before the public offering date for the second series dollar bonds:

(a) All acts, deeds, and proceedings required by the constitution and laws of the Republic and by the provisions of the fiscal agency and loan agreement and the supplemental agreement precedent to the issue of said second series bonds and to render said second series bonds, the supplemental agreement and this agreement, the valid and binding obligations of the Republic in accordance with their terms shall have been performed, shall have happened and shall have been taken and the Republic shall have delivered or caused to be delivered to the designated representative of the bankers in Peru duly authenticated copies of all laws and decrees or other instruments authorizing the execution of this agreement and of the supplemental agreement and the creation, issue, and sale of said second series bonds.

(b) The bankers shall have received an opinion of their American counsel and of their Peruvian counsel and, if second series sterling bonds are purchased hereunder, of their English counsel (the last two in form satisfactory to their American counsel) approving the proceedings of the Republic taken to authorize

the execution of this agreement and of the supplemental agreement, the creation, issue, and sale of the second series bonds to be purchased hereunder in accordance with the terms of the fiscal agency and loan agreement, the supplemental agreement, and this agreement, and in performance of all other matters to be performed precedent to the issue of said second series bonds, as provided in the fiscal agency and loan agreement and the supplemental agreement, and approving the sufficiency of all action taken for said purposes, and stating in substance that the supplemental agreement is the valid and binding obligation of the Republic in accordance with its terms, and that all the second series bonds to be purchased hereunder and the coupons appurtenant thereto, in both temporary and definitive form, when executed and delivered in accordance therewith, will be the valid and binding obligations of the Republic in the hands of holders of any citizenship or residence whatsoever, in accordance with their terms, and that this agreement is the valid and binding obligation of the Republic in accordance with its terms, and approving all other legal matters in connection with the issue and sale of said second series bonds.

(c) The Republic shall have delivered to the bankers at least two days before the public offering of the second series dollar bonds the prospectus letter or letters referred to in section 1 of article 3 hereof, and shall also have delivered to the fiscal agents at least one day before the public offering of the second series dollar bonds the temporary second series dollar bond or bonds and the temporary second series sterling bond, and shall have irrevocably instructed the fiscal agents to authenticate and deliver the same to the bankers, in each case at the time and in the manner provided in section 2 of article 1 hereof.

Sec. 2. The bankers shall have the absolute right at any time prior to the day fixed for the delivery of and payment for the second series dollar bonds to be purchased hereunder to terminate their obligations to make a public offering of, and to purchase and pay for, (a) the second series dollar bonds to be purchased hereunder, or (b) the second series sterling bonds to be purchased hereunder, or (c) both said second series dollar bonds and said second series sterling bonds, by a written or a cabled notice to the Republic, if, in their opinion, political, financial, or economic conditions in Europe or America render it inadvisable to offer said second series dollar bonds or said second series sterling bonds, or both said second series dollar bonds and said second series sterling bonds, as the case may be, to the public. If the obligation of the bankers in respect of either the second series dollar bonds or the second series sterling bonds or both shall be terminated in accordance with the right of termination reserved in this section, the Republic covenants that it will forthwith pay or reimburse the bankers for all expenses of the character specified in section 4 of article 3 hereof to be paid by it, incurred to the date of such termination in respect of such second series dollar bonds or second series sterling bonds or both, as the case may be.

Sec. 3. If the Republic shall fail or be unable to make delivery of the second series bonds to be purchased hereunder within the time and under the conditions specified in this agreement, including any extended time which may be granted by the bankers for such delivery:

(a) The obligation of the bankers to take and pay for said second series bonds may, at their option, be terminated by written or cabled notice to the Republic, and thereupon the obligation of the bankers to take and pay for said second series bonds, and the obligation of the Republic to deliver the same under the terms of this agreement shall cease and terminate.

(b) The Republic shall forthwith, upon receipt of such notice of termination, pay to the bankers the sum of \$150,000 in cash to reimburse the bankers for their expenses incurred in connection with the matters covered in this agreement and as compensation for their services rendered to the Republic to the date of such termination.

#### ARTICLE 3

SECTION 1. As soon as practicable after the execution of this agreement, the Republic will deliver or cause to be delivered to the bankers a prospectus letter or letters signed by the Minister of Finance of the Republic or other representative of the Republic satisfactory to the bankers, and addressed to the bankers or to such of their associates as the bankers may specify, or cause a representative of the Republic satisfactory to the bankers to approve a prospectus letter or letters, containing in each case such information concerning the resources

and financial conditions of the Republic, including its debts, income and expenditures, financial administration and such other matters as the bankers may request, and in such form as may be satisfactory to the bankers' counsel, for use in connection with the offering or sale of the second series bonds to be purchased hereunder in the United States of America and elsewhere. The Republic agrees that, since the bankers are relying on the statements contained in said prospectus letter or letters and on the representations set forth in this agreement, the fiscal agency and loan agreement and the supplemental agreement in purchasing said second series bonds, and will make use of such prospectus letter or letters and representations in disposing of said second series bonds, it will indemnify the bankers and their associates and hold them harmless against any damages, claims, or liability which the bankers or such associates may incur by reason of any error or misstatement contained therein.

SEC. 2. The Republic will, at the request of the bankers, and at its own expense, make application to list said second series bonds upon the New York Stock Exchange and such principal European stock exchanges as the bankers may request, and the Republic will furnish when and as required such information and data as may be necessary for such purpose.

The Republic, at the request of the bankers, shall also enter into agreements with any such stock exchanges as the bankers may specify to offer at the Republic's expense duplicates of all bonds which may be discarded by such exchanges because of inferior quality of paper or engraving and shall also enter into such other agreements as may be required in connection with any such listing.

SEC. 3. The bankers, in their sole discretion, may choose and have in the purchase of the second series bonds to be purchased hereunder such associates as they may determine and may make any offering thereof or cause any offering thereof to be made to the public either by themselves or others and in their own names or in the names of others.

SEC. 4. The Republic will pay the cost of printing this agreement and the supplemental agreement, the cost of printing or engraving, executing and authenticating the temporary and definitive second series bonds and the interim certificates and scrip certificates which may be issued (if any), the expenses of exchanging interim certificates or scrip certificates for temporary or definitive second series bonds or for cash, the expenses of exchanging temporary second series bonds for definitive second series bonds and the expense of listing the second series bonds to be purchased hereunder on the New York Stock Exchange and the principal European stock exchanges on which said second series bonds may be listed; and including also all stamp taxes and other duties and assessments, if any, to which under the laws of the Republic or of any foreign country in which any of said second series bonds are issued by the Republic or sold by the bankers or their associates, or of any political subdivision or authority thereof or therein, this agreement, the fiscal agency and loan agreement, the supplemental agreement, said second series bonds, temporary or definitive, or the interim certificates or the scrip certificates may be subject.

The Republic will in addition pay to the bankers an amount equal to 1 per cent of the total principal amount of all second series bonds which the bankers shall purchase hereunder, in consideration of which the bankers agree to bear all their cable expenses, the fees and disbursements of their Peruvian, American and English counsel, and all their other expenses in connection with their negotiations with the Republic for the sale to them of said second series bonds.

SEC. 5. The Republic agrees that if the sale and purchase of said second series bonds shall be consummated as in this agreement provided, it will not offer for sale any issue of external bonds or notes, or permit any issue of external bonds or notes issued or guaranteed by it to be offered for sale, and will not stamp or indorse all or any part of any issue of internal bonds or notes issued, assumed or guaranteed by it to permit their being offered for sale in the United States of America, in Canada, or in Europe, within a period of 12 months after the date of the public offering of the second series dollar bonds without the written consent of the bankers.

SEC. 6. In consideration of the purchase of said second series bonds and of the services rendered and to be rendered by the bankers pursuant to this agreement, the Republic hereby grants to the bankers a preferential right to purchase the bonds of any external loans issued or guaranteed by the Republic which may be issued during a period of three years from the date of issue of said second series bonds, on the most favorable terms to the bankers which the Republic

is willing to accept from any other purchaser or purchasers, and the Republic further covenants that it will not within such 3-year period issue or offer for sale any bonds of any external loans to be issued or guaranteed by the Republic without first giving to the bankers a 45-day option to purchase such bonds on terms at least as favorable to the bankers as the Republic is willing to accept from any other purchaser or purchasers.

SEC. 7. The Republic agrees that it will at any time, at the request of the bankers, execute an agreement supplemental to the fiscal agency and loan agreement providing that no second series bonds in addition to the second series bonds at the time outstanding shall thereafter be issued except as provided in section 11 of article 1 of the fiscal agency and loan agreement.

#### ARTICLE 4

SECTION 1. Any notice, request, or instruction required or permitted to be given hereunder by one party to the other shall be deemed sufficient if given in the manner expressly provided herein or, if no manner be expressly provided, in English in writing, or by cable confirmed in writing, as follows:

(a) If from the bankers to the Republic, over the signature of J. & W. Seligman & Co. and addressed to the minister of finance of the Republic, at Lima, Peru.

(b) If from the Republic to the bankers, over the signature of the minister of finance of the Republic and delivered to J. & W. Seligman & Co. at No. 54 Wall Street, New York, N. Y., U. S. A., or such other address as may be specified to the Republic by the bankers for that purpose.

SEC. 2. Any reference in this agreement to the bankers shall be deemed to mean and include any successor firm, association, or partnership continuing the respective businesses of J. & W. Seligman & Co. and the National City Co. Any reference in this agreement to the Republic shall be taken to mean and include any successor sovereign government which may at any time during the life of this agreement govern the major portion of the territory now embraced within the territorial boundaries of the Republic.

SEC. 3. This agreement shall be executed in the English language and may be executed in one or more counterparts, each of which shall be deemed to be an original. There shall be attached to each executed counterpart a duly authenticated copy of the supreme resolution hereinabove mentioned.

This agreement shall be interpreted and construed in accordance with the laws of the State of New York, in the United States of America, as though it had been made and were to be performed wholly within the territorial limits of said State.

In witness whereof Republica del Peru (Republic of Peru) has caused this agreement to be executed on its behalf in four counterparts by his excellency, Señor Don Manuel G. Masias, the minister of finance of the Republic, thereunto duly authorized, as aforesaid, and J. & W. Seligman & Co. has caused this agreement to be signed on its behalf in a like number of counterparts by Henry C. Breck, its attorney in fact, thereunto duly authorized, and the National City Co. has caused this agreement to be executed on its behalf in a like number of counterparts by Alexander J. Robertson, its attorney in fact, thereunto duly authorized, all as of the day and year first above written.

REPUBLICA DEL PERU,  
By M. G. MASIAS,  
*Minister of Finance*  
J. & W. SELIGMAN & Co.,  
By HENRY C. BRECK,  
*Attorney in Fact.*  
THE NATIONAL CITY Co.,  
By A. J. ROBERTSON,  
*Attorney in Fact.*

## EXHIBIT No. 11

## AGREEMENT BETWEEN REPUBLICA DEL PERU (REPUBLIC OF PERU) AND J. &amp; W. SELIGMAN &amp; CO. AND THE NATIONAL CITY BANK OF NEW YORK, DATED OCTOBER 1, 1928—AGREEMENT SUPPLEMENTAL TO PERUVIAN NATIONAL LOAN FISCAL AGENCY AND LOAN AGREEMENT

Agreement, dated October 1, 1928, between Republica del Peru (Republic of Peru), hereinafter called the Republic, acting by his excellency, Señor Don Manuel G. Masias, the minister of finance of the Republic, thereunto duly authorized by supreme resolution dated October 19, 1928, issued with the approval of the council of ministers, and J. & W. Seligman & Co., a copartnership of the city and State of New York, United States of America, acting by Henry C. Brock, thereunto duly authorized, and the National City Bank of New York, a corporation duly organized and existing under the national banking laws of the United States of America, acting by Alexander J. Robertson, thereunto duly authorized, hereinafter collectively called the fiscal agents, supplemental to the Peruvian national loan fiscal agency and loan agreement, dated as of December 1, 1927, between the Republic and the fiscal agents.

The Republic makes the following representations:

(a) The Republic has entered into a valid fiscal agency and loan agreement dated as of December 1, 1927, with J. & W. Seligman & Co. and the National City Bank of New York (herein called the fiscal agency and loan agreement) providing for the creation of an external loan to be known as the Peruvian national loan (hereinafter called the loan) and has validly created the loan and issued a first series of the bonds of the loan.

(b) The Republic desires presently to create a second series of the bonds of the loan in accordance with the terms and conditions set forth in the fiscal agency and loan agreement and in this agreement supplemental thereto and from time to time to issue bonds of such series, in order to provide funds for its proper governmental purposes.

Now therefore, this agreement witnesseth that, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed, and do hereby agree as follows:

## ARTICLE 1—CREATION, ISSUE, AUTHENTICATION, AND DELIVERY OF SECOND SERIES BONDS

SECTION 1. The Republic hereby creates a second series of bonds of the Peruvian national loan (hereinafter called the second series bonds) to be known as Peruvian national loan, 6 per cent external sinking fund gold bonds, second series, if payable in gold coin or if not so payable as Peruvian national loan, 6 per cent external sinking fund bonds, second series, limited (except as provided in section 11 of article 1 of the fiscal agency and loan agreement) to the principal amount at any time outstanding of \$50,000,000 in gold coin of the United States of America or the equivalent of all or any part thereof in English pounds sterling. For the purpose of such limitation, the principal amount of any second series bonds payable in pounds sterling shall be converted into dollars at the rate of \$4.8665 for £1. From time to time and at any time after the execution of this agreement, the Republic may issue second series bonds as hereinafter provided.

If at any time the Republic shall desire to issue any second series bonds, the Republic shall deliver:

(a) To the fiscal agents a certificate signed by the minister of finance of the Republic or other duly authorized representative of the Republic in such form as shall be satisfactory to the fiscal agents stating that the proposed issue of such second series bonds will comply in all respects with the provisions of article 4 and section 9 of article 5 of the fiscal agency and loan agreement; and

(b) To the fiscal agents an opinion of counsel satisfactory to the fiscal agents that the issue of such second series bonds and the execution and delivery of this agreement have been duly authorized and that this agreement will be a valid and binding obligation of the Republic in accordance with its terms and that such second series bonds will be validly issued under and entitled to all the benefits of the fiscal agency and loan agreement, this agreement and

any other agreements supplemental to the fiscal agency and loan agreement appertaining thereto; and

(c) To the fiscal agents, or, if the fiscal agents shall so request, to any of the paying agents appointed as provided in section 2 of article 8 of the fiscal agency and loan agreement, such second series bonds duly executed by the Republic; and the fiscal agents shall authenticate and deliver or cause such paying agents to authenticate and deliver such second series bonds to or upon the order of such person or persons and at such time or times as may be designated in a written or cabled order of the Republic signed by its minister of finance or its duly authorized representative.

The fiscal agents may rely upon any such certificate or opinion and shall be fully protected in so doing. The fiscal agents may, however, in their discretion require such further certificates or opinions or may make such further investigation as they may deem necessary to determine that the issue of such second series bonds will comply with the provisions of the fiscal agency and loan agreement, but shall be under no obligation to require any such further certificates or opinions or to make any such further investigation unless requested in writing, so to do by the holders of at least 10 per cent of the bonds of all series then outstanding and unless tendered security and indemnity satisfactory to the fiscal agents against any and all costs, expenses, and liabilities.

Sec. 2. The second series bonds may be payable in whole or in part as the Republic may determine prior to the issue thereof, (a) in New York in dollars in gold coin of the United States of America of or equal to the standard of weight and fineness existing on the date of the second series bonds, and in such other city or cities, if any, as the Republic may determine prior to the issue thereof in the currency of the place of payment at the buying rate of the paying agent making such payment for dollar sight exchange on New York at the time of such payment (hereinafter called the second series dollar bonds), or (b) in London in pounds sterling, and in New York in dollars at the rate of \$4.8665 for £1 in gold coin of the United States of America of or equal to the standard aforesaid and in such other city or cities, if any, as the Republic may determine prior to the issue of such second series bonds in the currency of the place of payment at the option of the holders, either at the buying rate of the paying agent making such payment for dollar sight exchange on New York, or at the buying rate of such paying agent for sterling sight exchange on London, at the time of such payment (hereinafter called the second series sterling bonds). The principal of, and interest upon, all the second series bonds payable in New York shall be payable, at the option of the holders, in the borough of Manhattan, in the city and State of New York, United States of America, at the principal office of either of the fiscal agents. The principal of, and interest upon, all the second series bonds payable in any other city or cities, shall be payable at the office or offices therein of such paying agent or paying agents as may be appointed as provided in section 2 of article 8 of the fiscal agency and loan agreement. If any second series bonds are payable in more than one city, payment of the principal of and interest upon such second series bonds shall be made, at the option of the holders, in any of the cities in which such second series bonds are payable.

Sec. 3. The second series bonds shall be payable to bearer, shall be dated October 1, 1928, shall mature October 1, 1961, and shall bear interest from October 1, 1928, at the rate of 6 per cent per annum, payable on April 1 and October 1 in each year. The definitive second series bonds shall be in coupon form. The definitive second series dollar bonds may be of the denominations of \$1,000 and \$500 and the definitive second series sterling bonds may be of the denominations of £1,000, £500, £100, and £20.

Sec. 4. The principal of, and interest upon, all the second series bonds, shall be paid in time of war as well as in time of peace and irrespective of the citizenship or residence of the holders thereof, and shall be paid free from and without deduction or diminution for any taxes, assessments, charges, levies or duties of any nature, now or at any time hereafter imposed, levied or assessed by the Republic, or by any province, district, municipality or other taxing authority thereof or therein.

Sec. 5. The text of the definitive second series dollar bonds and of the coupons to be annexed thereto and of the certificate of authentication to be indorsed on the second series bonds shall be substantially in the forms of the bond, coupon, and certificate of authentication for the second series dollar bonds annexed hereto and marked Exhibit A with such variations, additions or omissions consistent with the provisions of the fiscal agency and loan

agreement and of this agreement as may be required by the fiscal agents prior to the issue thereof.

The text of the definitive second series sterling bonds and of the coupons to be annexed thereto and of the certificate of authentication to be indorsed on the second series sterling bonds shall be substantially in the forms of the bond, coupon, and certificate of authentication for the second series sterling bonds annexed hereto and marked Exhibit B, with such variations, additions, or omissions consistent with the provisions of the fiscal agency and loan agreement and of this agreement as may be required by the fiscal agents and the paying agents for the second series sterling bonds prior to the issue thereof.

**ARTICLE II.—PAYMENTS FOR THE SERVICE OF INTEREST AND AMORTIZATION OF SECOND SERIES BONDS**

**SECTION 1.** Until all the second series bonds shall have been paid or redeemed the Republic shall pay, or cause to be paid, in each semiannual period, the first semiannual period to commence October 1, 1928, to the fiscal agents, at the office of J. & W. Seligman & Co., in the borough of Manhattan, city and State of New York, United States of America, for the semiannual service of interest and amortization of the second series bonds, such sum in gold coin of the United States of America of the standard aforesaid as, calculated by the fiscal agents, as hereinafter provided, will be sufficient to pay all interest charges upon, and to provide a cumulative sinking fund to retire at or before their maturity by semiannual redemptions at their principal amount, all the second series bonds issued hereunder. Upon the issue of any second series bonds, the fiscal agents shall calculate the sum so required to be paid in each semiannual period for the service of interest and amortization of such second series bonds as aforesaid from October 1, 1928, if issued during the first semiannual period or, if issued thereafter, from the interest payment date next preceding the date of issue thereof, unless issued on an interest payment date, in which case such sum shall be calculated from such interest payment date; and upon the issue of any additional second series bonds, the amount payable in each semiannual period, including the semiannual period in which such additional second series bonds are issued, shall be increased by the amount so calculated to be required for the service of interest and amortization of the additional second series bonds issued. In case any second series bonds are issued on a date other than interest payment date, the fiscal agents shall calculate the proportion of the first semiannual payment for the service of interest and amortization on such second series bonds accrued or to accrue at the end of the calendar month in which such second series bonds are issued and such amount shall be deducted from the proceeds of such second series bonds and deposited at the date of issue thereof with the fiscal agents. For the purpose of determining such amounts, the principal amount of any second series sterling bonds shall be converted into dollars at the rate of \$1.8665 for £1 sterling. All sums payable hereunder for the service of interest and amortization of second series bonds in respect of each semiannual period, excluding in the case of second series bonds issued on a date other than an interest payment date the proportion of the first semiannual payment for the service thereof to be deposited with the fiscal agents out of the proceeds thereof as aforesaid but including the residue of such semiannual payment not so deposited, shall be paid in monthly instalments as hereinafter in article 5 provided.

**Sec. 2.**—The moneys paid by the Republic pursuant to section 1 of this article shall be applied to the payment of the interest due and payable on the next succeeding interest-payment date on the second series bonds then outstanding on presentation and surrender of the coupons for such interest in accordance with the terms thereof, and the balance of such moneys shall be applied as a sinking fund for the redemption of second series bonds on behalf of the Republic on the next succeeding interest-payment date in the manner hereinafter in article 6 hereof provided. The Republic irrevocably authorizes and directs the fiscal agents and the paying agents for the second series bonds so to apply such moneys without any further formality except such as the fiscal agents or the paying agents may deem advisable or necessary in order to comply with any law of the place of payment.

**Sec. 3.** The Republic will pay to the fiscal agents at least 30 days before the maturity of the second series bonds such sum in gold coin of the United States of America of the standard aforesaid, in addition to the semiannual sum then payable pursuant to section 1 of this article, as may be required to pay the full

principal amount of any second series bonds then outstanding and the interest thereon maturing on the maturity date.

SEC. 4. The fiscal agents shall make such arrangements with the paying agents for the second series bonds as they may deem advisable so that the moneys paid to the fiscal agents pursuant to sections 1 and 3 of this article may be available to make payment of the second series bonds and coupons presented to the paying agents for payment.

SEC. 5. In addition to the payments made as provided in sections 1 and 3 of this article, the Republic shall also pay to the fiscal agents on demand (or the fiscal agents, at their option, may deduct from any moneys of the Republic then on deposit with the fiscal agents and not specifically appropriated for other purposes) such additional sum in gold coin of the United States of America or in pounds sterling as may be required in connection with the service of interest and amortization and the payment of principal and interest at maturity of second series sterling bonds by reason of the fact that the cost of purchasing the required amount of pounds sterling or the required amount of United States of America gold coin of the standard aforesaid exceeds the equivalent of such amount in United States of America gold coin or in pounds sterling, as the case may be, at the rate of \$4.8665 for £1 sterling, provided, however, that all savings in the amounts required by reason of the fact that the cost of purchasing such pounds sterling or United States of America gold coin is less than the equivalent of such amount in United States of America gold coin or in pounds sterling, as the case may be, at the rate of \$4.8665 for £1 sterling shall be credited from time to time to the Republic by the fiscal agents.

SEC. 6. The Republic shall pay in pounds sterling such part of the moneys to be paid to the fiscal agents pursuant to sections 1 and 3 of this article as the fiscal agents may request at any time before payment of such moneys is made to them and shall make any such payment to such paying agent or paying agents for the second series bonds as the fiscal agents may request. Every such payment in pounds sterling shall reduce the amount payable in dollars pursuant to sections 1 and 3 of this article, and for the purpose of determining the amount of such reductions, pounds sterling shall be converted into dollars at the rate of \$4.8665 for £1.

SEC. 7. All transfers and exchanges of funds between the fiscal agents and the paying agents shall be made at, as nearly as reasonably practicable, the current rates of exchange at the time of such transfers and exchanges and in addition to the payments to be made as provided in sections 1, 3, 5, and 6 of this article, all expenses incidental to such transfers and exchanges shall be paid by the Republic to the fiscal agents on their written or cabled demand or the fiscal agents, at their option, may deduct the amount thereof from any moneys of the Republic then on deposit with the fiscal agents and not specifically appropriated to other purposes.

SEC. 8. Any paying agents may publish, at the expense of the Republic, such notices of the payment of interest as may be customary in the city in which such paying agent is acting or required by any stock exchange on which the second series bonds may be listed.

SEC. 9. The payments by the Republic to the fiscal agents, or to the paying agents, pursuant to sections 1, 3, 5, and 6 of this article, shall not release the obligation of the Republic to the holders of the second series bonds and coupons to pay the principal and interest of the second series bonds when and as the same shall become due and payable in accordance with their terms, whether at maturity or on redemption for the sinking fund or on extraordinary redemption.

#### ARTICLE 3.—EXTRAORDINARY REDEMPTION OF SECOND SERIES BONDS

SECTION 1. The second series bonds shall be subject to redemption, at the option of the Republic, on April 1, 1929, and on any interest payment date thereafter, as a whole or in part, at 100 per cent of their principal amount and accrued interest to the date designated for redemption, on notice given in the manner provided in section 2 of this article. The provisions of sections 2, 3, and 4 of article 3 of the fiscal agency and loan agreement shall not apply to the second series bonds, but such redemption shall be made in the manner provided in sections 2, 3, and 4 of this article.

SEC. 2. In case at any time the Republic shall desire to redeem, as a whole or in part, the second series bonds, the Republic shall so notify the fiscal agents in writing, specifying the interest payment date (which shall not be

less than 90 days after such notification) on which it desires to make redemption and the principal amount of the second series bonds which it desires to redeem.

In case of each partial redemption of the second series bonds the fiscal agents shall determine the principal amounts of second series dollar bonds and second series sterling bonds to be redeemed by allocating so far as may be practicable to the redemption of second series dollar bonds a proportion of the redemption moneys equal to the proportion which the aggregate principal amount of second series dollar bonds at the time outstanding bears to the aggregate principal amount of all the second series bonds at the time outstanding, and to the redemption of second series sterling bonds a proportion of the redemption moneys equal to the proportion which the aggregate principal amount of second series sterling bonds at the time outstanding bears to the aggregate principal amount of all the second series bonds at the time outstanding. The fiscal agents shall forthwith notify the paying agents in London for the second series sterling bonds of the principal amount of second series sterling bonds to be redeemed.

In case of partial redemption, the fiscal agents shall also determine by lot in any usual manner, deemed fair by the fiscal agents, the numbers of the second series dollar bonds to be redeemed, and furnish a notarial certificate thereof to the Republic, and the fiscal agents, or such paying agent in London as the fiscal agents may select, shall determine by lot in any usual manner deemed fair by the fiscal agents or such paying agent, as the case may be, the numbers of the second series sterling bonds to be redeemed, and furnish a notarial certificate thereof to the Republic. The fiscal agents shall promptly notify the paying agents for the second series dollar bonds of the second series dollar bonds to be redeemed, and the fiscal agents or such paying agent in London, as the case may be, shall promptly notify the fiscal agents and the paying agents for the second series sterling bonds of the numbers of the second series sterling bonds to be redeemed.

As soon as practicable the fiscal agents shall, on behalf of the Republic, give or cause to be given notice of redemption of second series dollar bonds in the city of New York by an advertisement published once a week for at least four consecutive weeks in each instance upon any day of the week, each publication to be made in at least one daily newspaper published and of general circulation therein, the first publication to be at least 60 days and not more than 90 days before the date so fixed for redemption, and also in each of the other cities in which the second series dollar bonds may be payable by an advertisement published at least once in at least one daily newspaper published and of general circulation therein, such publication or publications to be made at least 10 days and not more than 40 days before the date so fixed for redemption. The fiscal agents shall also give or cause to be given notice of such redemption of second series sterling bonds in London and also in each of the other cities in which the second series sterling bonds may be payable by an advertisement published at least once in at least one daily newspaper published and of general circulation therein, such publication or publications to be made at least 60 days and not more than 90 days before the date so fixed for redemption. Each such notice shall specify the date fixed for redemption, the redemption price and the second series dollar bonds or the second series sterling bonds, as the case may be, to be redeemed which may be presented for payment in the city in which such notice is published, and, in the case of partial redemption, shall set forth the numbers of the second series dollar bonds or the second series sterling bonds, as the case may be, to be redeemed. Each such notice shall in addition require that the second series bonds thereby called for redemption be surrendered on or after such redemption date, together with all coupons appurtenant thereto maturing on or after such redemption date, at the office of either of the fiscal agents or of any of the paying agents at which such second series bonds may be presented for payment, for redemption at said redemption price and shall state that the second series bonds thereby called for redemption shall upon said redemption date become due and payable and that, unless default be made by the Republic in providing moneys for such redemption as aforesaid, interest on such second series bonds shall cease to accrue on such redemption date.

SEC. 3. The Republic shall, at least 30 days prior to the date so fixed for such redemption, deposit with the fiscal agents at their principal office or offices in the city and State of New York a sum of money in gold coin of the United States of America of the standard aforesaid (converting into dollars the amount

in pounds sterling required for the redemption of the second series sterling bonds at the rate of \$4.8665 for £1) sufficient to redeem and pay the second series bonds so called for redemption at the redemption price thereof, together with the accrued interest thereon to the date fixed for redemption, and the fiscal agents shall redeem and pay, or cause to be redeemed and paid, but only out of moneys deposited with the fiscal agents for that purpose, all such second series bonds presented and surrendered for redemption on or after said redemption date at the redemption price thereof, including accrued interest thereon to said redemption date. The fiscal agents shall make such arrangements with the paying agents for the second series bonds as they may deem advisable so that the moneys so deposited with the fiscal agents may be available to make payment of such second series bonds and coupons as may be presented to the paying agents for payment. The Republic shall deposit in pounds sterling such part of the moneys to be deposited with the fiscal agents as above provided, as the fiscal agents may request at any time before such deposit is made with them, and shall make any such deposit with such paying agent or paying agents for the second series bonds as the fiscal agents may so request. Every such deposit of pounds sterling shall reduce the amount required to be deposited with the fiscal agents in dollars as above provided, and for the purpose of determining the amount of such reductions, pounds sterling shall be converted into dollars at the rate of \$4.8665 for £1. The Republic shall also pay to the fiscal agents on demand (or the fiscal agents, at their option, may deduct from any moneys of the Republic then on deposit with the fiscal agents and not specifically appropriated for other purposes) such additional sum in gold coin of the United States of America or in pounds sterling as may be required in connection with the redemption of second series sterling bonds by reason of the fact that the cost of purchasing the required amount of pounds sterling or the required amount of United States of America gold coin of the standard aforesaid exceeds the equivalent of such amount in United States of America gold coin or in pounds sterling, as the case may be, at the rate of \$4.8665 for £1 sterling, provided, however, that all savings in the amounts required by reason of the fact that the cost of purchasing such pounds sterling or United States of America gold coin is less than the equivalent of such amount in United States of America gold coin or in pounds sterling, as the case may be, at the rate of \$4.8665 for £1 sterling shall be credited from time to time to the Republic by the fiscal agents.

Any moneys set aside pursuant to section 2 of article 2 hereof for the payment of interest maturing on said redemption date on any second series bonds which may be called for redemption shall be credited against the obligation of the Republic to deposit such accrued interest as a part of the redemption price for second-series bonds.

Sec. 4. From and after the date so designated for redemption, the notices aforesaid having been published and the deposit aforesaid having been made, all second-series bonds so called for redemption shall cease to bear interest, and upon presentation thereof, in accordance with said published notices, together with all coupons maturing on and after said redemption date, said second-series bonds shall be paid by the Republic at the principal amount thereof and with accrued interest to such redemption date as above provided. If any second-series bonds so called for redemption shall not be paid on presentation thereof, such second-series bonds shall continue to bear interest at the rate of 6 per cent per annum upon the principal amount thereof until payment.

If any second-series bond presented for redemption shall not be accompanied by the coupon maturing on the redemption date, then said second-series bond shall be paid at the redemption price aforesaid less the face amount of such coupon. All second-series bonds redeemed under the provisions of this article and all coupons thereto appertaining shall immediately upon such redemption be canceled by the fiscal agents or paying agents through whom such redemption is made and be delivered at convenient periods to a representative of the Republic for that purpose or sent by registered mail to the nearest embassy or legation of the Republic at the risk and expense of the republic: *Provided, however,* That all second-series bonds redeemed and canceled at the office of the fiscal agents or of any paying agent, which shall not have been authenticated by the fiscal agents or the paying agent making such payment, shall first be sent by registered mail to the fiscal agents or to the paying agent, as the case may be, who shall have authenticated such second-series bonds, at the risk and expense of the Republic. No second-series bonds shall be issued in lieu of any second-series bonds so redeemed and canceled.

## ARTICLE 4.—PARTICULAR COVENANTS OF THE REPUBLIC WITH RESPECT TO THE SECOND-SERIES BONDS

SECTION 1. The Republic pledges its full faith and credit for the due and punctual performance of all the covenants and agreements in this agreement and in the second-series bonds contained to be performed or observed by it.

SEC. 2. The Republic will pay the stamp taxes and other duties and charges, if any, to which under the laws of the Republic this agreement may be subject.

SEC. 3. The Republic covenants that the net proceeds of the second-series bonds, that is, after deducting from the gross proceeds an amount sufficient to pay or reimburse for any expenses to be borne by the Republic in connection with the issue and sale of the second-series bonds and the service charges on the second-series bonds accrued to the end of the calendar month in which such second-series bonds are issued, shall forthwith upon the Republic's becoming entitled to such proceeds be deposited with the fiscal agents or, at the request of the fiscal agents, with any paying agent for any of the second-series bonds, for account of the Republic, to be disposed of by them for account of the Republic as follows:

(a) To the extent permitted by law, to repayment of all sums advanced, the interest due thereon, and all other sums payable at the date of issue of the second-series bonds, under the fifth credit, pursuant to the fifth-credit agreement dated August 10, 1928, between the Republic and J. & W. Seligman & Co. and the National City Bank of New York, but such repayment shall not be deemed to terminate such fifth credit, which shall continue in force in accordance with the terms of the fifth-credit agreement.

(b) Up to but not exceeding \$18,000,000 shall be applied by the fiscal agents (1) to the purchase at not exceeding their redemption prices plus accrued interest, of such bonds or notes of external secured loans of the Republic from time to time outstanding, as the fiscal agents in their absolute discretion may select, whether or not the same are by their terms presently redeemable, or (2) to the redemption at their redemption prices of any or all outstanding bonds or notes of any or all external secured loans of the Republic, which by their terms are presently redeemable at the option of the Republic, as shall be selected by the fiscal agents in consultation with the Republic. Pending such application all such moneys shall remain on deposit with the fiscal agents or, if the fiscal agents shall so request, with one of the paying agents. Bonds so purchased may be resold by the fiscal agents for account of the Republic when deemed advisable by them and authorized by the Republic, and such authority may be general or specific, and the proceeds of such sales shall revert to and become a part of the fund created by this subdivision (b). The fiscal agents may charge to or pay from the fund created by this subdivision (b) the customary stock exchange commissions on all such purchases and sales, and such commissions shall not be included in the purchase or sale prices. All interest received by the fiscal agents upon bonds or notes purchased and held by them as aforesaid, all moneys, if any, received by the fiscal agents upon the redemption of such bonds or notes, but only to the extent that the moneys for the redemption thereof have not been provided by withdrawals from the sums on deposit under this subsection (b), all savings arising from purchases at less than their respective redemption prices of any such bonds or notes called for redemption and accepted in lieu of the redemption moneys therefor, and all losses arising from sales of any such bonds or notes at prices less than those paid for the same, shall be credited or charged, as the case may be, to the general account of the Republic with the fiscal agents, and any excess of the amounts so credited over the amounts so charged may from time to time be disbursed for account of the Republic for such purposes as the Minister of Finance of the Republic may direct.

(c) Up to but not exceeding \$2,120,000 may, at the option of the Republic, be applied to the construction and improvement of Callao Harbor dock and shipping facilities and may be withdrawn by the Republic from time to time by written or cabled drafts drawn to the order of the contractors undertaking such development and in accordance with the terms of the contract therefor and any modifications thereof, if any.

(d) The residue remaining after making or providing for the payments provided in paragraphs (a), (b), and (c) above shall remain on deposit with the fiscal agents or, if the fiscal agents shall so request, with one of the paying agents, and be withdrawn by the Republic for the purpose of carrying forward the public works under construction at the date of the fiscal agency and loan.

agreement from time to time in installments at the rate of not exceeding \$750,000 per month, determined from December 1, 1927, and including for the purposes of such determination all amounts withdrawn out of the proceeds of the first series bonds and all amounts advanced under the fifth credit for such purpose.

The Republic hereby irrevocably authorizes the fiscal agents to apply the proceeds of the second series bonds deposited with them for account of the Republic to the purposes, in the amounts and at the time or times hereinabove in this section specified, and the Republic covenants and agrees that such proceeds shall remain on deposit with the fiscal agents or with such paying agents until disposed of by them for account of the Republic for the purposes and in the amounts so specified.

In making any payment out of the proceeds of the second series bonds the fiscal agents may use the proceeds deposited with them and the proceeds, if any, deposited with any paying agents in such proportions as the fiscal agents in their discretion may determine. Such paying agents are authorized and directed to pay the funds so deposited with them to or upon the written or cabled order of the fiscal agents. All transfers and exchanges of funds in connection with such withdrawals shall be made at, as nearly as reasonably practicable, the current rates of exchange at the time of such transfers and exchanges and all costs and expenses of such transfers and exchanges shall be paid by the Republic to the fiscal agents on the written or cabled demand of the fiscal agents. Neither the fiscal agents nor any such paying agents shall be under any responsibility or duty to make any inquiry or investigation with respect to the application of the proceeds of the second series bonds deposited with the fiscal agents or with any such paying agents.

SEC. 4. The Republic covenants that as soon as possible after the execution of this agreement it will, by executive decree or other appropriate action, call for redemption on the earliest permissible redemption date or dates and redeem when and as presented for redemption all the bonds of the Peruvian sterling 5½ per cent loan of 1909 and the Peruvian sterling 5 per cent bonds of 1920 outstanding at the date of this agreement. The Republic further covenants that, when and as requested by the fiscal agents, it will, by executive decree or other appropriate action, call for redemption and redeem all or such part, at the earliest permissible date or dates thereafter of such of its other external secured callable loans issued and outstanding at the date of this agreement as shall be specified by the fiscal agents and apply to the redemption thereof such part of the proceeds of the second series bonds as is applicable thereto, pursuant to the provisions of this agreement, or present for cancellation the bonds of such external secured callable loans purchased for account of the Republic by the fiscal agents and held by them pending such cancellation, pursuant to the provisions of this agreement; and the Republic further covenants that the bonds so redeemed or presented shall be cancelled and that no bonds of such external secured callable loans shall be issued in place thereof.

#### ARTICLE 5.—APPLICATION OF REVENUES TO INTEREST AND AMORTIZATION PAYMENTS FOR BONDS OF THE LOAN

SECTION 1. The provisions of section 1 of article 7 of the fiscal agency and loan agreement are and shall be superseded by the provisions of section 2 of this article 5.

SEC. 2. The payments to be made by the Republic to the fiscal agents in respect of each semiannual period for the semiannual service of interest and amortization of the first series bonds as provided in article 2 of the fiscal agency and loan agreement and of the second series bonds, as provided in article 2 of this agreement, and of any other series of bonds which may be issued under the fiscal agency and loan agreement shall be made in the following amounts and in the following manner:

(a) The sum of \$291,666.66⅔ in December, 1927, and monthly in each calendar month thereafter, said sum being equal to one-sixth of the amount necessary for the installment for the service of interest on, and amortization of, the first series bonds in respect of each semiannual period as in article 2 of the fiscal agency and loan agreement provided.

(b) In the calendar month next succeeding the date on which the first issue of second series bonds is made hereunder and monthly in each calendar month thereafter, the sum equal to one-sixth of the amount necessary for the in-

stallment for the service of interest on, and amortization of, the second series bonds in respect of each semiannual period as in article 2 hereof provided.

(c) In such months, and in each calendar month thereafter, as may be provided in any agreements supplemental to the fiscal agency and loan agreement providing for the issue of additional series of bonds, the sum equal to one-sixth of the amount necessary for the installment for the service of interest on and amortization of the bonds of each such additional series in respect of each semiannual period for each such series as may be provided in such supplemental agreements.

(d) Unless and until otherwise agreed upon by the Republic, the Caja and the fiscal agents as representatives of the bondholders, such monthly payments shall be made in the following manner: On the first Monday in December, 1927, and on each Monday thereafter, the gross amounts of the revenues of the Republic collected by or deposited with the Caja de Depositos y Consignaciones (herein called the Caja), or any successor special collecting agency appointed as in section 2 of article 6 of the fiscal agency and loan agreement provided, during the preceding week, remaining after deducting from the revenues which were pledged at the date of the fiscal agency and loan agreement to secure any then existing loan of the Republic, the payments for the service of interest and amortization and all other moneys due and payable in respect of the bonds or notes of such loan at the time outstanding and not previously provided for, shall be paid by the Caja, on behalf of the Republic, to the Peruvian representative of the fiscal agents, appointed as provided in the fiscal agency and loan agreement, until the full amount required to be made available to the fiscal agents in New York for the service of the bonds of the loan of all series at the time outstanding, the full monthly payments specified in subsections (a), (b) and (c) of this section, shall have been received by the Peruvian representative. Such weekly payments shall be made either in dollars of the United States of America or, with the consent or at the request of the fiscal agents, in Peruvian pounds or in any other currency in which any bonds of the loan of any series may be payable. The moneys so paid to the Peruvian representative shall as soon as practicable after the receipt thereof be remitted, or applied to the purchase of sight exchange or cable transfers and remitted, by the Peruvian representative in such manner as the fiscal agents shall direct, at the risk and expense of the Republic, to the fiscal agents in New York in dollars, or to such paying agents of the bonds of the loan of any series and in such currencies, as the fiscal agents may request pursuant to the provisions of section 6 of article 2 hereof, or pursuant to the provisions of any other agreement supplemental to the fiscal agency and loan agreement.

(e) Such additional sum, on or before the last day of each calendar month, commencing with December, 1927, as may be necessary to make up the deficiency, if any, by which the revenues of the Republic collected by or deposited with the Caja, or its successors, and paid over to, or for account of, and received by, the fiscal agents in New York, and by the paying agent in the respective cities in which they are appointed to act, for the service of interest on, and amortization of, the bonds of all series as in subsection (d) of this section provided, shall not be sufficient for the full payments specified to be made in subsections (a), (b), and (c) of this section in respect of each such calendar month, and

(f) Such additional sum on or before each interest date for each series of the bonds as may be necessary to make up the deficiency, if any, by which the moneys paid over to, or for the account of, and received by, the fiscal agents in New York, and by the paying agents in the respective cities in which they are appointed to act, in respect of the current semiannual payment for each series of the bonds, as provided in article 2 of the fiscal agency and loan agreement and in article 2 hereof and as may be provided in any such supplemental agreement, shall not be sufficient for the full payment therein specified to be made.

The fiscal agents shall apply or cause to be applied all amounts paid to them or to the paying agents as provided in this section to the service of each series of the bonds of the loan pro rata according to the amount which may be due and payable to the fiscal agents at the time of each such payment in respect of the service of each series of the bonds of the loan.

Any consent or request of the fiscal agents that the payments by the Republic to the Peruvian representative may be made in any currency other than dollars as in subsection (d) of this section provided, may at any time be withdrawn by the fiscal agents by notice in writing or by cable addressed and

sent to the Minister of Finance of the Republic and the Caja, and thereafter such payments to the Peruvian representative shall be in dollars of the United States of America until the fiscal agents again consent or request that such payments may be made in another currency.

The failure of the fiscal agents to secure or retain the service of a bank, firm, corporation, or responsible individual to act as its representative in Peru, or the failure of the fiscal agents to appoint such representative in Peru, or the failure of the Peruvian representative to transmit any sums paid over to it to the fiscal agents in New York or to such paying agent as the fiscal agents may request in the respective cities in which such paying agents are appointed to act, or the failure of the fiscal agents or such paying agents to receive any such sums in New York or in such cities, or the failure of the Peruvian representative or the fiscal agents or any such paying agent to make transfers or exchanges of funds or payments as contemplated by the fiscal agency and loan agreement or this agreement, or any agreement supplemental to the fiscal agency and loan agreement, shall not relieve the Republic of its obligation to make the full payments provided in this section, and the Republic agrees that in such event it will make, or cause to be made, such payments or any deficiency therein in gold coin of the United States of America directly to the fiscal agents in the city of New York or in pounds sterling directly to the paying agents in the city of London, or in such other currency or currencies in which bonds of the loan at the time outstanding shall be payable, directly to the paying agents for such bonds, to the end that both the principal of and interest upon all bonds of the loan at the time outstanding shall be duly and punctually paid at the times and in the manner and at the places therein provided.

#### ARTICLE 6—SINKING FUND FOR SECOND-SERIES BONDS

SECTION 1. The moneys set aside and apportioned by the fiscal agents in each semiannual period, pursuant to section 2 of article 2 hereof, for the redemption of second-series bonds, together with any amounts carried forward from the next preceding semiannual period pursuant to section 3 of this article, shall be applied to the redemption of second-series bonds on the next succeeding interest payment date (the first application to be made on April 1, 1929, and subsequent applications to be made on each interest payment date thereafter) at the redemption price of 100 per cent of the principal amount thereof and accrued unpaid interest thereon to such interest payment date in the manner hereinafter in this section provided; and the fiscal agents and the paying agents are hereby authorized and empowered to redeem with such moneys at said redemption price on each such interest payment date and at the places and in the manner hereinafter in this section provided, in the name and on behalf of the Republic, and at its expense, a principal amount of second-series bonds equal to the amount of such sinking fund installment plus any such amounts carried forward. The sinking-fund moneys shall be allocated to the redemption of second series dollar bonds and to the redemption of second series sterling bonds, the numbers of the second-series bonds to be redeemed shall be determined, and such redemption shall be made in the manner and with like notice as is provided in section 2, of article 3 hereof in the case of partial redemption, except that in the case of the notice of redemption of second series dollar bonds to be given in the city of New York, the first publication shall be made at least 30 and not more than 60 days before such redemption date and in the case of all notices of redemption of second series sterling bonds the publication or publications shall be made at least 10 days and not more than 40 days before such redemption date. From and after the date so set for redemption, notice having been so given by publication and the moneys sufficient for such redemption having been paid to the fiscal agents, the second series bonds so called for redemption shall cease to bear interest and, upon presentation and surrender in accordance with said published notices, at any office of the fiscal agents or paying agents at which such second-series bonds may be presented for payment, of such second-series bonds, together with all coupons thereto appertaining maturing on and after said redemption date, said second-series bonds shall be paid by the Republic at the principal amount thereof and accrued interest to such redemption date. If any second-series bonds so called for redemption shall not be paid on presentation thereof, said second-series bonds shall continue to bear interest at the rate of 6 per cent per annum upon the principal amount thereof until payment. If any second-series bonds so presented for redemption shall not be accompanied by the coupon

thereto appertaining maturing on the redemption date, then said second-series bonds shall be paid at the redemption price aforesaid, less the face amount of such coupon.

SEC. 2. Accrued unpaid interest on second-series bonds redeemed for the sinking fund shall not be paid by the fiscal agents out of moneys set aside for the sinking fund, pursuant to section 2 of article 2 hereof, nor out of any other moneys in the sinking fund, but shall be paid out of moneys set aside pursuant to section 2 of article 2 hereof for payment of interest on all the second-series bonds.

SEC. 3. Any odd amounts of money applicable to the redemption of second-series bonds for the sinking fund amounting to less than the sum required to redeem one second-series bond of the smallest denomination outstanding and which can not therefore be applied to the redemption of second-series bonds on the next succeeding interest payment date, shall be carried over and applied with the moneys set aside for the sinking fund during the next succeeding six months period to the redemption of second-series bonds.

SEC. 4. All second-series bonds redeemed for the sinking fund, pursuant to the provisions of this article, and all coupons thereto appertaining, shall immediately upon such redemption be canceled by the fiscal agents or the paying agents through whom such redemption is made and delivered at convenient periods to a representative of the Republic for that purpose, or sent by registered mail to the nearest embassy or legation of the Republic at the risk and expense of the Republic, provided, however, that all second-series bonds redeemed and canceled at the office of the fiscal agents or of any paying agent which shall not have been authenticated by the fiscal agent or by the paying agent making such payment shall first be sent by registered mail, at the risk and expense of the Republic, to the fiscal agent or to the paying agent, as the case may be, who shall have authenticated such second-series bonds. No second-series bonds shall be issued in place of second-series bonds so redeemed and canceled.

SEC. 5. No expenses of any character incurred by the fiscal agents or the paying agents in connection with the administration of the sinking fund shall be charged against the sinking fund, or paid out of any moneys in the sinking fund, but all such expenses shall be borne by the Republic and shall be paid by the Republic to the fiscal agents or the paying agents upon their written or cabled demand.

#### ARTICLE 7.—GENERAL PROVISIONS

SECTION 1. The provisions of this agreement shall supplement the provisions of the fiscal agency and loan agreement and, to the extent that the provisions of the fiscal agency and loan agreement are expressly superseded or modified by the provisions of this agreement, shall supersede and modify the provisions of the fiscal agency and loan agreement; but, except as so superseded or modified, the provisions of the fiscal agency and loan agreement shall remain in full force and effect, and the bonds of all series of the loan shall be entitled to all of the benefits and shall be subject to all of the provisions of this agreement and the fiscal agency and loan agreement as so superseded or modified.

SEC. 2. The sum held by the fiscal agents at the date of this agreement out of the proceeds of the first series bonds as a gold exchange fund as provided in subsection (b) of section 8 of article 5 of the fiscal agency and loan agreement shall be held to be utilized for the purpose therein specified for such additional period not less than one year from December 1, 1928, as the executive power may deem advisable. After the termination of such gold exchange fund any balance remaining in the hands of the fiscal agents shall be paid over to the Republic.

SEC. 3. The Republic hereby agrees that the reasonable compensation and expenses of the member of the board of directors of the Caja and the alternate member designated as provided in section 14 of article 5 of the fiscal agency and loan agreement up to an aggregate amount which shall not exceed \$20,000 per annum, during the calendar year 1929 and each subsequent year thereafter, shall be included in the expenses of the fiscal agents and shall be paid by the Republic to the fiscal agents from time to time upon demand.

SEC. 4. The Republic hereby agrees that the reasonable compensation and expenses of the paying agents for all series of the bonds of the loan shall be included in the expenses of the fiscal agents to be paid by the Republic as provided in section 7 of article 8 of the fiscal agency and loan agreement.

SEC. 5. Whenever, according to the provisions of this agreement, any notice, request, or instruction, or order, for the payment of money or delivery of securities or otherwise may be required to be given by one party to another, it shall be deemed sufficient notice, except as otherwise herein expressly provided, if given in writing in English or in Spanish, as follows:

(a) If from the fiscal agents to the Republic (1) by registered letter or (2) by cablegram or radiogram, and confirmed by letter, addressed to the minister of finance of the Republic at Lima, Peru, or to the ambassador of the Republic to the United States of America at Washington, in the District of Columbia, United States of America, over the signature of both the fiscal agents which may be signed by one of them.

(b) If from the Republic to the fiscal agents (1) by registered letter or (2) by cablegram or radiogram, and confirmed by letter, delivered to the fiscal agents at the office of J. & W. Seligman & Co., No. 54 Wall Street, in the city and State of New York, United States of America, or at such other address as may be designated by the fiscal agents from time to time, over the signature of the minister of finance of the Republic, or his representative, or over the signature of the ambassador of the Republic to the United States of America.

SEC. 6. This agreement shall be executed in the English language and may be executed in one or more counterparts, each of which shall be deemed to be an original. There shall be attached to each executed counterpart a duly authenticated copy of the supreme resolution hereinabove mentioned.

SEC. 7. In case any one or more of the covenants and agreements contained in this agreement or in the bonds shall be invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining covenants and agreements contained herein and in the bonds shall be in no wise affected, prejudiced, or disturbed thereby.

SEC. 8. Whenever reference is herein made to the Republic, it shall be deemed to apply to any successor sovereign government which may at any time during the life of this agreement govern the major portion of the territory now embraced within the territorial boundaries of the Republic.

SEC. 9. This agreement shall be interpreted and construed in accordance with the laws of the State of New York in the United States of America as though it had been made and were to be performed wholly within the territorial limits of said State.

In witness whereof, Republica del Peru (Republic of Peru) has caused this agreement to be executed on its behalf in four counterparts by his excellency, Señor Don Manuel G. Masias, the minister of finance of the Republic, thereunto duly authorized, as aforesaid, and J. & W. Seligman & Co. has caused this agreement to be signed on its behalf in a like number of counterparts by Henry C. Breck, its attorney in fact, thereunto duly authorized, and the National City Bank of New York has caused this agreement to be signed on its behalf in a like number of counterparts by Alexander J. Robertson, its attorney in fact, thereunto duly authorized, all as of the day and year first above written.

REPUBLICA DEL PERU,  
By M. G. MASIAS,  
*Minister of Finance.*  
J. & W. SELIGMAN & CO.,  
By HENRY C. BRECK,  
*Attorney in Fact.*  
THE NATIONAL CITY BANK OF NEW YORK,  
By ALEXANDER J. ROBERTSON,  
*Attorney in Fact.*

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EXHIBIT A

[Form of second series dollar bond]

REPUBLIC OF PERU (REPUBLICA DEL PERU), PERUVIAN NATIONAL LOAN, 6 PER CENT EXTERNAL SINKING FUND GOLD BOND, SECOND SERIES

Dated October 1, 1928. Due October 1, 1961.

Republica del Peru (Republic of Peru), hereinafter called the Republic, for value received, promises to pay to the bearer of this bond on October 1, 1961, the sum of \$\_\_\_\_\_ in gold coin of the United States of America of the stand-

ard of weight and fineness existing on October 1, 1928, and to pay interest thereon from October 1, 1928, until the principal of this bond shall be paid, in like gold coin, at the rate of 6 per cent per annum, semiannually on October 1 and April 1 in each year, upon presentation and surrender of the coupons hereto annexed as they severally mature. Such principal and interest shall be paid at the option of the holder hereof in gold coin of the United States of America of the standard aforesaid, in the borough of Manhattan, in the city and State of New York, United States of America, at the principal office of either of the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank of New York, or their respective successors, or in pounds sterling in the city of London, England, at the principal office of either of the London paying agents, Seligman Bros. (Ltd.) and the National City Bank of New York, or their respective successors, or in Dutch guilders, in the city of Amsterdam, Holland, at the principal office of any of the Amsterdam paying agents, Pierson & Co., Netherlands Trading Society, Mendelssolin & Co. and De Twentsche Bank, or their respective successors, or in Swiss francs, in the cities of Zurich or Basle, Switzerland, at the principal office in each of said cities of the Swiss paying agent, Credit Suisse, or its successor, in each case except the first at the buying rate of the paying agent making such payment for dollar sight exchange on the city of New York at the time of such payment. Such principal and interest shall be paid in every case free from and without deduction or diminution for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed, levied, or assessed by the Republic or by any province, municipality, or other taxing authority therein or thereof, and shall be paid in time of war as well as in time of peace and irrespective of the citizenship or residence of the holder hereof.

This bond is one of a series of bonds which have been designated Peruvian national loan, 6 per cent external sinking fund bonds, second series (hereinafter called the second series bonds), limited to the principal amount at any one time outstanding of \$50,000,000 in gold coin of the United States of America or the equivalent of all or any part thereof in English pounds sterling, duly authorized by law No. 5930, enacted by the Congress of the Republic, dated December 17, 1927, being the second series of bonds of a loan designated Peruvian national loan (hereinafter called the loan) duly authorized by said law, of which bonds of the first series in the principal amount of \$50,000,000 have heretofore been issued. The second series bonds have been issued under a fiscal agency and loan agreement dated as of December 1, 1927, between the Republic and the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank of New York (hereinafter called the fiscal agency and loan agreement) and an agreement dated October 1, 1928, between the Republic and said fiscal agents supplemental thereto (hereinafter called the supplemental agreement) to both of which agreements reference is hereby made for a statement of the terms and conditions upon which the bonds of the loan have been issued, a statement of the restrictions upon the issue of bonds of additional series of the loan, and a statement of the covenants made by the Republic in respect to the security and service of the first series bonds and second series bonds, to the benefit of which covenants the holder of this bond is entitled. This bond together with all other second series bonds payable as above provided have been designated Peruvian national loan, 6 per cent external sinking fund gold bonds, second series, and are hereinafter called the second series dollar bonds.

The second series bonds are subject to extraordinary redemption, in whole or in part, at the option of the Republic, on any interest payment date at their principal amount plus accrued unpaid interest to the date designated for redemption upon notice given, in the case of second series dollar bonds, in the city of New York by an advertisement published once a week for at least four consecutive weeks, in each instance upon any day of the week, each publication to be made in at least one daily newspaper published and of general circulation therein, the first publication to be made at least 60 days and not more than 90 days before the date fixed for redemption, and also in each of said other cities in which the second series dollar bonds are payable by an advertisement published at least once in at least one daily newspaper published and of general circulation therein, such publications to be made at least 10 days and not more than 40 days before the date fixed for redemption, as more fully provided in the supplemental agreement.

Until all the second series bonds shall have been paid or redeemed the Republic will pay, or cause to be paid, semiannually to the fiscal agents for the

semiannual service of interest and amortization of the second series bonds such sum in gold coin of the United States of America of or equal to the standard aforesaid as, calculated by the fiscal agents as provided in the supplemental agreement, will be sufficient to pay all interest charges upon, and to provide a cumulative sinking fund to retire at or before their maturity by semiannual redemptions at their principal amount, all the second series bonds issued under the fiscal agency and loan agreement and the supplemental agreement. The fiscal agents shall apply such moneys received by them in each semiannual period to the payment of interest maturing on the next succeeding interest payment date on the second series bonds then outstanding and shall apply the balance of such moneys so received in each semiannual period to the redemption by lot of second series bonds on the next succeeding interest payment date at their principal amount on like notice, in the case of second series dollar bonds, as above provided in the case of extraordinary redemption, except that in the case of the notice of redemption to be given in the city of New York, the first publication shall be made at least 30 days and not more than 60 days before such redemption date, as more fully provided in the supplemental agreement.

The Republic covenants that so long as any of the second series bonds shall be outstanding it will maintain an office or agency in the borough of Manhattan, the city of New York, where the second series bonds and interest coupons may be presented for payment and where notices or demands in respect of the second series bonds and interest coupons may be served.

Subject to the provisions and restrictions of the fiscal agency and loan agreement, and the supplemental agreement the holder hereof, by the acceptance hereof, constitutes and appoints the fiscal agents, and each of them, the representatives or representative of the holder for the purpose of entering into any agreement or agreements supplemental to the fiscal agency and loan agreement and the supplemental agreement, and for the purposes of enforcing all obligations of the Republic set forth herein and in the coupons appertaining hereto and in the fiscal agency and loan agreement, the supplemental agreement and any agreement supplemental thereto, for the benefit of the holders of the bonds of the loan, to which appointment the Republic hereby consents and agrees.

This bond and the coupons appertaining hereto shall pass by delivery.

This bond shall not become valid or obligatory for any purpose until it shall be authenticated by the certificate of the National City Bank of New York, as authenticating agent, hereon indorsed.

In witness whereof, Republica del Peru has caused this bond to be prepared bearing a facsimile of the coat of arms of the Republic as a seal of the Republic and a facsimile of the signature of its Minister of Finance and has caused this bond to be manually signed on its behalf by its consul general in the city of New York, United States of America, or other representative of the Republic thereunto duly authorized, and the coupons for said interest bearing the facsimile signature of its Minister of Finance, to be hereto annexed.

Dated October 1, 1928.

REPUBLICA DEL PERU,

[Form of authenticating agent's certificate]

This is to certify that this bond is one of the Peruvian national loan, 6 per cent external sinking fund gold bonds, second series, described in the within-mentioned fiscal agency and loan agreement and supplemental agreement.

THE NATIONAL CITY BANK OF NEW YORK.  
(Authenticating Agent.)

Authorized Officer.

[Form of coupon]

On ———, 19—, unless the bond hereinafter mentioned shall have been called for previous redemption, Republica del Peru (Republic of Peru) will, on surrender hereof, pay to bearer, at his option, in gold coin of the United States of America of or equal to the standard of weight and fineness existing on October 1, 1928, in the borough of Manhattan, in the city and State of New York, United States of America, at the principal office of either of the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank of New York, or their respective successors, or in pounds sterling, in the

city of London, England, at the principal office of either of the London paying agents, Seligman Bros. (Ltd.) and the National City Bank of New York, or their respective successors, or in Dutch guilders, in the city of Amsterdam, Holland, at the principal office of any of the Amsterdam paying agents, Pierson & Co., Netherlands Trading Society, Mendelssohn & Co., and De Twentsche Bank, or their respective successors, or in Swiss francs, in the cities of Zurich or Basle, Switzerland, at the principal office in each of said cities of the Swiss paying agent, Credit Suisse, or its successor in each case except the first at at buying rate of the paying agent making such payment for dollar sight exchange on the City of New York at the time of such payment, \$— in gold coin of the United States of America of the standard aforesaid, in every case free from and without deduction or diminution for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed, levied, or assessed by the Republic of Peru or by any State, Province, municipality, or other taxing authority therein or thereof, in time of war as well as in time of peace and irrespective of the citizenship or residence of such bearer, being six months' interest then due on its Peruvian national loan, 6 per cent external sinking fund gold bond, second series, due —, 19—, No. —.

REPUBLICA DEL PERU,

Minister of Finance.

EXHIBIT B

[Form of second series sterling bonds]

REPUBLIC OF PERU (REPUBLICA DEL PERU)—PERUVIAN NATIONAL LOAN, 6 PER CENT EXTERNAL SINKING FUND BONDS, SECOND SERIES

Dated October 1, 1928. Due October 1, 1961.

Bond to bearer for £—.

This bond is one of an issue of bonds consisting of like sterling bonds amounting in the aggregate to £— of the following numbers and denominations, viz:

Bonds numbered — to —, inclusive, of £1,000 each.

Bonds numbered — to —, inclusive, of £500 each.

Bonds numbered — to —, inclusive, of £100 each.

Representing a total nominal amount of £—.

Republica del Peru (Republic of Peru), herein called the Republic, for value received, promises to pay to the bearer of this bond on October 1, 1961, the sum of £—, and to pay interest thereon from October 1, 1928, until the principal of this bond shall be paid, at the rate of 6 per cent per annum, semi-annually, on April 1 and October 1 in each year, upon presentation and surrender of the coupons hereto annexed as they severally mature. Such principal and interest shall be paid in London in sterling at the office of either of the London paying agents, Seligman Bros. (Ltd.) and the National City Bank of New York, or their respective successors, or at the option of the holder, in New York, in gold coin of the United States of America of the standard of weight and fineness existing on October 1, 1928, at the principal office of either of the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank, of New York, or their respective successors, at the exchange rate of £1 equals \$4.8665. Such principal and interest shall be paid in every case free from and without deduction or diminution for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed, levied, or assessed by the Republic or by any province, municipality, or other taxing authority therein or thereof, and shall be paid in time of war as well as in time of peace and irrespective of the citizenship or residence of the holder thereof.

This bond is one of a series of bonds which have been designated Peruvian national loan, 6 per cent external sinking fund bonds, second series (herein called the second series bonds), limited to the principal amount at any one time outstanding of \$50,000,000 in gold coin of the United States of America or the equivalent of all or any part thereof in sterling. The second series bonds have been duly authorized by law No. 5030, enacted by the Congress of the Republic, dated December 17, 1927, and constitute the second series of bonds issuable in series of a loan designated Peruvian national loan (herein called the loan) duly authorized by said law, of which bonds of the first series in the principal

amount of \$50,000,000 have heretofore been issued. The second series bonds have been issued under a fiscal agency and loan agreement dated as of December 1, 1927, between the Republic and the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank, of New York (herein called the fiscal agents); and an agreement supplemental thereto dated October 1, 1928, and made between the same parties to both of which agreements reference is hereby made for a statement of the terms and conditions upon which the bonds of the loan have been issued, a statement of the restrictions upon the issue of bonds of additional series of the loan, and a statement of the covenants made by the Republic in respect to the security and service of the first and second series bonds, to the benefit of which covenants the holder of this bond is entitled. This bond together with all other second series bonds payable as above provided are hereinafter called second series sterling bonds.

The second series bonds are subject to redemption, in whole or in part, at the option of the Republic, on any interest payment date at their principal amount plus accrued unpaid interest to the date designated for redemption upon giving 60 days previous notice by advertisement.

The second series bonds are entitled to the benefit of an accumulative sinking fund of 1 per cent per annum to be applied semiannually to the redemption of second series bonds, commencing April 1, 1929, at their principal amount and accrued unpaid interest thereon to the date designated for redemption. The bonds to be redeemed will be determined by drawings, and notice of the second series sterling bonds to be so redeemed shall be given by advertisement not more than 40 or less than 10 days prior to the date on which such bonds are to be redeemed.

Notice of any redemption of second series sterling bonds under either of the last two preceding paragraphs, specifying in the case of a partial redemption the numbers of the sterling bonds to be so redeemed, shall be given by advertisement in at least one daily newspaper of general circulation published in London.

Should any of the second-series bonds or coupons be lost, mutilated, or destroyed from any cause, a new second-series bond or coupon, as the case may be, of like tenor and denomination will be issued to the holder upon payment of the expenses occasioned by their substitution, after having had all such evidence as may be required by the Peruvian Government as to the loss, mutilation, or destruction of the bond or coupon and the rights of the claimant, and after all necessary formalities have been complied with, all as more fully provided in the fiscal agency and loan agreement.

Subject to the provisions and restrictions of said fiscal agency and loan agreement and said supplemental agreement, the holder hereof, by the acceptance hereof, constitutes and appoints the fiscal agents, and each of them, the representatives or representatives of the holder for the purpose of entering into any agreement or agreements supplemental to the fiscal agency and loan agreement and said supplemental agreement, and for the purpose of enforcing all obligations of the Republic set forth herein and in the coupons appertaining hereto and in the fiscal agency and loan agreement, the supplemental agreement and any agreement supplemental thereto, for the benefit of the holders of the bonds of the loan, to which appointment the Republic hereby consents and agrees.

This bond shall not become valid or obligatory for any purpose until it shall be authenticated by the certificate of the National City Bank of New York as authenticating agent hereon indorsed.

In witness whereof, Republica del Peru has caused this bond to be prepared bearing a facsimile of the coat of arms of the Republic and a seal of the Republic and a facsimile of the signature of its Minister of Finance and has caused this bond to be manually signed on its behalf by \_\_\_\_\_, its representative thereunto duly authorized, and the coupons for said interest bearing the facsimile signature of its Minister of Finance to be hereto annexed.

Dated October 1, 1928.

REPUBLICA DEL PERU,  
By \_\_\_\_\_

[Form of authenticating agent's certificate]

This is to certify that this bond is one of the Peruvian national loan, 6 per cent external sinking-fund bonds, second series, described in the within-men-

tioned fiscal agency and loan agreement and the within-mentioned supplemental agreement.

AUTHENTICATED AGENT,  
By \_\_\_\_\_,  
Authorized Officer.

[Form of coupon]

No.

PERUVIAN NATIONAL LOAN—6 PER CENT EXTERNAL SINKING FUND BONDS. SECOND SERIES

Coupon for £  
Being half-year's interest due

Unless the bond to which this coupon was originally annexed shall have been called for previous redemption, payment will be made in sterling at the offices of Seligman Bros. (Ltd.), or the National City Bank of New York, London, or, at the option of the holder, in dollars (calculated at the fixed rate of exchange of \$1.8665 equals £1) at the offices of J. & W. Seligman & Co., or the National City Bank of New York, N. Y., upon surrender hereof.

Caja de Depositos y Consignaciones hereby declares that it is familiar with the terms of the foregoing agreement, dated October 1, 1928, between Republica del Peru (Republic of Peru) and J. & W. Seligman & Co. and the National City Bank of New York, as fiscal agents, supplemental to the fiscal agency and loan agreement between the same parties and dated as of December 1, 1927, and hereby covenants and agrees with said fiscal agents, for the benefit of the holders of the bonds of any and all series of the Peruvian national loan at any time or from time to time outstanding, that it will collect, or receive deposit of, revenues of the Republic in accordance with the provisions of Law No. 5746 and Law No. 5931 of the Republic, and in accordance with the provisions of an agreement dated December 29, 1927, entered into between the Republic and the caja to carry out and give full effect to the provisions of said laws, and that it will duly and punctually apply and pay over, out of the revenues of the Republic which may be collected by or deposited with it pursuant to said Law No. 5746, Law No. 5931, and said agreement dated December 29, 1927, at the times and in the manner and amounts specified in article 7 of the above-mentioned fiscal agency and loan agreement, as amended by article 5 of the above-mentioned agreement dated October 1, 1928, supplemental to said fiscal agency and loan agreement, and in the applicable provisions of any agreements executed in connection therewith or supplemental thereto, the sums required for the service of interest and amortization of the bonds of any and all series of the Peruvian national loan at any time or from time to time outstanding and all other sums payable in respect thereof, and will otherwise act in conformity with and comply with the provisions of said laws and its agreement with the Republic dated December 29, 1927, and any agreements supplemental thereto.

CAJA DE DEPOSITOS Y CONSIGNACIONES,  
By PEDRO LARRAÑAGA, *Director-Gerente*.

EXHIBIT No. 12

AGREEMENT BETWEEN REPUBLIC OF PERU AND CAJA DE DEPOSITOS Y CONSIGNACIONES WITH INTERVENTION OF J. & W. SELIGMAN & CO. AND THE NATIONAL CITY BANK OF NEW YORK, FISCAL AGENTS, DATED OCTOBER 22, 1928—SUPPLEMENTAL REVENUE COLLECTION AGREEMENT

Agreement, dated October 22, 1928, between the Republic of Peru (hereinafter called the Republic), acting by his excellency Señor Don Manuel G. Masias, the Minister of Finance of the Republic, thereunto duly authorized by supreme resolution dated October 22, 1928, issued with the approval of the council of ministers, and the Caja de Depositos y Consignaciones (hereinafter called the caja), acting by its managing director, Señor Don Pedro Larrañaga, pursuant to the provisions of article 9 of Law No. 5931.

Whereas the Republic has by Law No. 5930 duly created the Peruvian national loan and authorized the issue of an aggregate of \$100,000,000 of the bonds of said loan in series and, pursuant to said law, has entered into a fiscal agency and loan agreement with J. & W. Seligman & Co. and the National City Bank

of New York, as fiscal agents, dated as of December 1, 1927, providing for the issue of the first series of the bonds of said loan; and

Whereas the Republic by Law No. 5746 and Law No. 5931 has duly provided for the collection by or deposit with the caja of certain revenues of the Republic and for the application by the caja of said revenues to the service of the bonds of all series of said loan and, pursuant to said Law No. 5931, has entered into an agreement with the caja, dated December 29, 1927, whereby the caja has covenanted to collect or receive the deposit of said revenues and to apply the same in accordance with said law and said fiscal agency and loan agreement; and

Whereas the Republic has entered into an agreement with the fiscal agents, dated October 1, 1928, supplementing and, to the extent therein stated, superseding and modifying said fiscal agency and loan agreement and providing for the issue of a second series of the bonds of said loan; and

Whereas pursuant to said law No. 5931, the Republic and the caja desire to enter into this agreement supplementing said agreement between the Republic and the caja dated December 29, 1927:

Now, therefore, in consideration of the premises and of the mutual covenants hereinafter set forth the parties hereto have agreed as follows:

1. The caja declares that it is familiar with all the terms and provisions of said agreement dated October 1, 1928, between the Republic and the fiscal agents supplementing and, to the extent therein stated, superseding and modifying said fiscal agency and loan agreement dated as of December 1, 1927.

2. The Republic irrevocably authorizes and directs the caja to, and the caja covenants and agrees with the Republic and the fiscal agents that it will, so long as any bonds of any series of the Peruvian national loan are outstanding, duly and punctually apply and pay over the amounts of the revenues of the Republic collected by or deposited with the caja pursuant to said law No. 5746, law No. 5931, and said agreement dated December 29, 1927, in accordance with the provisions of said agreement dated December 29, 1927, and said fiscal agency and loan agreement as supplemented, superseded or modified by said agreement dated October 1, 1928, and will effect the service of any additional series of said loan with the revenues which it collects or receives for account of the Republic, in accordance with the provisions of any further agreement or agreements hereafter made, in conformity with said law No. 5746 and law No. 5931, by the Republic with the fiscal agents supplemental to said fiscal agency and loan agreement and pursuant to which any bonds of the Peruvian national loan may be issued.

In witness whereof, Republica del Peru has caused this agreement to be executed on its behalf by his excellency, Senor Don Manuel G. Masias, the Minister of Finance of the Republic, thereunto duly authorized as aforesaid, and the Caja de Depositos y Consignaciones has caused this agreement to be executed on its behalf by Senor Don Pedro Larranaga, its managing director, and the fiscal agents of the Republic, J. & W. Seligman & Co. and the National City Bank of New York, have subscribed their names hereto, all in conformity with the provisions of article 9 of said law No. 5931.

REPUBLICA DEL PERU,  
By M. G. MASIAS,  
*Minister of Finance.*  
CAJA OF DEPOSITOS Y CONSIGNACIONES,  
By PEDRO LARRANAGA,  
*Director-Gerente.*  
J. & W. SELIGMAN & CO.,  
By HENRY C. BRECK,  
*Authorized Representative.*  
THE NATIONAL CITY BANK OF NEW YORK,  
By A. J. ROBERTSON,  
*Authorized Representative.*

JANUARY 16, 1932.

EXHIBIT No. 13

MEMORANDUM—PERU TOBACCO LOAN AND PERUVIAN NATIONAL LOAN, FIRST AND SECOND SERIES

As testified by Mr. Strauss (p. 850 of the transcript) and Mr. Breck (p. 855 of the transcript) the Peruvian business was brought to J. & W. Seligman &

Co. by F. J. Lisman & Co. and was surcharged with promoters' commissions previously agreed to be paid by F. J. Lisman & Co. Attached are copies of various documents evidencing agreements to pay and payment of compensation and commissions to these promoters:

(a) Letter addressed to Messrs. F. J. Lisman & Co., by Bolster & Co., dated January 6, 1926.

(b) Unsigned "Memorandum of conversation between Messrs. Bolster, Corbin, Bailie, and Haskell," dated January 11, 1927.

(c) Receipt, dated April 7, 1927, signed by Juan Leguia.

(d-1) "Memorandum for Files," dated May 3, 1927, signed "Henry C. Breck."

(d-2) Unsigned "Memorandum of Agreement," dated April 8, 1927.

(e-1) "Memorandum for Files," dated May 3, 1927, signed "Henry C. Breck."

(e-2) Unsigned "Memorandum of Agreement," dated April 8, 1927.

(f) Letter dated April 12, 1927, addressed to Bolster & Co. by F. J. Lisman & Co. and acknowledged by Bolster & Co. (Inc.).

(g) "Memorandum of Agreement," dated November 21, 1927, signed "Henry C. Breck."

(h-1) Letter dated January 24, 1929, addressed to Messrs. J. & W. Seligman & Co. and Juan Leguia, Esq., by Madge Kennedy Bolster, individually and as executrix of the last will and testament of Harold Bolster, deceased.

(h-2) Indemnity bond signed and acknowledged by Madge Kennedy Bolster, individually and as executrix to the estate of Harold Bolster, deceased, and National Surety Co.

(i-1) Letter dated June 25, 1928, addressed to Mr. Earle Bailie of J. & W. Seligman & Co. by F. J. Lisman.

(i-2) Letter dated June 23, 1928, addressed to Thomas V. Salt by F. J. Lisman & Co., approved by Kenneth M. Spence and approved and accepted by T. V. Salt.

(i-3) Letter dated June 25, 1928, addressed to Thomas V. Salt by F. J. Lisman & Co.

(j) Release dated July 5, 1928, signed and acknowledged by T. V. Salt.

Transcript of accounts of Juan Leguia with J. & W. Seligman & Co. follow this Exhibit 13, as Exhibit 14.

The basic agreement respecting commissions was the letter from Bolster & Co., of New York, to F. J. Lisman & Co., dated January 6, 1926, document (a) referred to above. It will be noted that this letter evidences an agreement that Bolster & Co. and its "associates" were to receive commission or compensation on any financing carried out by F. J. Lisman & Co. in Peru during a period of five years from the date of the agreement. The amount of commission or compensation was left to be mutually agreed upon from time to time in respect of each piece of business.

As testified by Mr. Strauss and Mr. Breck (pp. 856, 857, and 858 of the transcript) it was learned only subsequently that Juan Leguia was one of the associates of Bolster & Co. in Peruvian business. Mr. Breck testified in substance (pp. 876, 877 of the transcript) that the agreements respecting the exact amounts of the commissions and compensation payable to members of the group of promoters, which amounts were not determined by the basic agreement with Bolster & Co., were verbal. The first verbal understanding reached after the basic agreement was made was an understanding reached about January 11, 1927, respecting the incidence of Mr. Harold Bolster's commission, that is, Bolster & Co. (Inc.), which is recorded in document (b) referred to above.

Subsequently, during the early part of April, 1927, a series of conversations took place in New York between these two promoters, Harold Bolster and Juan Leguia, and between these two promoters and representatives of J. & W. Seligman & Co. and F. J. Lisman & Co. In these conversations agreements were reached with respect to the exact amount of commissions and compensation to be paid to the promoters by the bankers and as to the division of the commissions among the promoters inter se. The results of these conversations are summarized below.

In a conversation between Mr. Juan Leguia and Mr. Henry C. Breck, of J. & W. Seligman & Co., held on April 5, 1927, an understanding was reached with respect to the amount of commissions payable to Mr. Juan Leguia on the tobacco loan. This agreement provided for payment by J. & W. Seligman & Co. and their associates of \$50,000 to Juan Leguia for services and expenses in connection with the original issue of tobacco loan bonds and notes, and included

a promise to pay one-half of 1 per cent on the principal amount of any future issues of bonds of the tobacco loan.

On April 7, 1927, J. & W. Seligman & Co. made payment of \$50,000 to Juan Leguia in accordance with the above-mentioned agreement, and Juan Leguia signed a receipt, document (c) above referred to. Payment was not made in cash but was made by crediting that amount to an account of Juan Leguia on the books of J. & W. Seligman & Co. which was opened for the purpose.

On April 8, 1927, Mr. Breck dictated a memorandum of his understanding of that part of the agreement which had been reached on April 5, 1927, relating to commissions and compensation payable to Juan Leguia on any future issues of bonds of the tobacco loan. This memorandum is document (d-1) above referred to. On May 3, 1927, Mr. Breck dictated a "Memorandum for files" (document (d-2) referred to above) which he attached to the memorandum of agreement of April 8, 1927 (document (d-1)).

On April 7, 1927, in New York, an oral agreement was reached between the promoters, Juan Leguia and Harold Bolster (of Bolster & Co.) on the one hand, and J. & W. Seligman & Co., acting on behalf of the bankers' group, defining the amount of the commissions and compensation to which the promoters would become entitled in the event of the consummation of a Peruvian refunding loan. On April 8, 1927, Mr. Breck dictated his understanding of the agreement (document (e-2)) and on May 3, 1927, dictated a "Memorandum for files" (document (e-1)) relating to this agreement.

On April 11, 1927, an oral agreement was made between Juan Leguia, Harold Bolster, F. J. Lisman & Co., and J. & W. Seligman & Co. relating to settlement of Mr. Bolster's claim for commission on the tobacco loan. It was agreed that Mr. Bolster should receive from F. J. Lisman & Co. \$15,000 as his compensation and commissions in connection with the tobacco loan; Mr. Bolster's right to receive one-eighth of a point out of the commission of five-eighths of a point to be paid the two promoters in the event of the consummation of a Peruvian refunding loan (see document (e-2)) was confirmed. Mr. Bolster further agreed to cancel his existing arrangement with F. J. Lisman & Co. (see document (a)) in relation to Peruvian business in return for the above-mentioned payment of \$15,000 cash and an agreement by F. J. Lisman & Co. to pay him a further \$25,000 cash when, as, and if F. J. Lisman & Co. should consummate the purchase of and offer to the public any securities of any company formed to acquire and operate the gasoline monopoly of Peru, a prospective piece of business in which J. & W. Seligman & Co. were not concerned. The settlement with Mr. Bolster was carried out on April 12, 1927 (see document (f)). Subsequently J. & W. Seligman & Co. as syndicate managers, reimbursed F. J. Lisman & Co. for \$10,000 of the \$15,000 payment above mentioned in recognition of a readjustment of F. J. Lisman & Co.'s interest in the bankers' group.

On or about November 21, 1927, the oral agreement made with Juan Leguia and Harold Bolster on April 7, 1927 (see document (e-2) above mentioned), was modified by a further oral agreement made in New York between Juan Leguia and Mr. Breck, acting on behalf of the bankers' group. On that date Mr. Breck dictated his understanding of the modified agreement for the files of J. & W. Seligman & Co. (see document (g)). No further agreement was entered into with Mr. Bolster at this time due to the fact that Mr. Bolster died on the preceding August 3, 1927.

After the conclusion of the purchase of the first series of the Peruvian national loan in December, 1927, and again after the conclusion of the purchase of the second series of the Peruvian national loan in October, 1928, the commissions payable to Juan Leguia and/or Harold Bolster in accordance with the agreements above referred to were paid by crediting the amount of such commissions to the accounts of "Juan Leguia" and (on the first series only) "Juan Leguia reserve for Bolster claim," as shown by the transcripts of accounts which have been furnished to the committee (Exhibit 14). The commission payable to Harold Bolster, or his estate, was ultimately paid to the estate of Harold Bolster, as evidenced by documents (h-1) and (h-2) above referred to.

To the extent that the statements in this memorandum and the documents attached hereto may be inconsistent with any testimony given by Mr. Breck from memory, Mr. Breck desires that his testimony before the committee be considered corrected and amended.

Some time prior to June 23, 1928, Mr. Thomas V. Salt, who had been a former employee of F. J. Lisman & Co., and who Mr. Breck testified (p. 869 of the transcript) had gone to Peru in 1926 as an employee of F. J. Lisman & Co. after Mr. Bolster first went, asserted a claim for commissions and compensation

in connection with the Peruvian financing (that is, the tobacco and national loans) pursuant to an alleged prior agreement with F. J. Lisman & Co. covering the terms of his employment, and commenced suit to enforce his claim. His claim was disputed on various grounds by both F. J. Lisman & Co. and J. & W. Seligman & Co., but on June 23, 1928, F. J. Lisman & Co. entered into a settlement with Mr. Salt by which Mr. Salt's claims both with respect to Peruvian business and certain domestic business were compromised and settled. This settlement is evidenced by documents (i-2) and (i-3).

At the time of the settlement with Mr. Salt, J. & W. Seligman & Co., on behalf of the group, agreed to assume and pay and did pay one-half of the sum of \$20,000 referred to in documents (i-2), (i-3).

BOLSTER & Co. (INC.),  
New York, January 6, 1926.

Messrs. F. J. LISMAN & Co.,  
New York City.

DEAR SIR: The following is our understanding of the conference held to-day at your office, at which the following were present: Messrs. F. J. Lisman, Mitchel May, A. O. Corbin, A. Mendes, T. V. Salt and Col. B. F. Castle, and Harold Bolster.

Whereas we have approached you for the purpose of interesting you in certain business that we have in process of negotiation through our associates in the Republic of Peru; and

Whereas owing to the limitation of time before sailing we have agreed to certain arrangements, which arrangements at a later date are to be embodied in a written agreement to be executed between us, it is understood, as follows:

You have agreed to send a representative with our Mr. Bolster to Peru to investigate the business that we have proposed to you, and provided you decide to do business in Peru, it is understood and agreed as follows:

That a corporation will then be created to handle such selected business as might arise from our introductions to your representative and that we will first present to you all Peruvian business which might come to our attention, in order that it may be handled by you directly or through the said corporation.

The shares of the proposed corporation are to be divided between you, ourselves, and associates in a proportion to be mutually agreed upon. The amount and character of the capital (probably nominal) of the corporation and its organization shall be mutually agreed between us.

As a further consideration it is understood and agreed that we and our associates are to receive a commission or compensation on any financing carried out by you, except business done through the above-named corporation in Peru. The amount of said commission or compensation is to be mutually agreed upon from time to time in respect of each piece of business.

It is further understood that this agreement is to be effective for a period of five years, unless your representative, Mr. T. V. Salt, within 60 days after his arrival at Lima, Peru, finds reasonable grounds for believing that our representations are incorrect as to the character of our connections in the Republic of Peru.

The terms of this agreement shall be embodied in a formal contract within a reasonable time after the expiration of the said period of 60 days.

Please indicate below your acceptance of the terms of this letter.

Yours very truly,

BOLSTER & Co.

JANUARY 11, 1927.

MEMORANDUM OF CONVERSATION BETWEEN MESSRS. BOLSTER, CORBIN, BAILIE,  
AND HASKELL

The question of Mr. Bolster's interest in Peruvian business that may be carried out between J. & W. Seligman & Co. and F. J. Lisman & Co. was talked out this afternoon, and it has been clearly understood that any interest of Mr. Bolster's is strictly through F. J. Lisman & Co. and that any compensation accruing to him through this interest is a matter of decision between Mr. Bolster and F. J. Lisman & Co., and will be deductible from the share of profits from such business belonging to F. J. Lisman & Co. It is understood that Mr.

Bolster makes no claims of any sort against the profits that may accrue to Messrs. J. & W. Seligman & Co. or to other persons arising out of these businesses.

Mr. Bolster clarified his relationship with F. J. Lisman & Co. by explaining that he holds a 5-year contract with them, in which they recognize his right to a fair commission, in any Peruvian business which they may do during the period. Rather than have any definite understanding as to the amount of this commission, Mr. Bolster was disposed to wait until such time as any deals were completed and a picture could be had of their success and the profits resulting therefrom. This, of course, is a strictly personal arrangement of Mr. Bolster with F. J. Lisman & Co. and is no concern of ours. Mr. Bolster made it clear that he had no call of any kind upon J. & W. Seligman & Co. because of his right to part of the Lisman profits arising through Peruvian deals.

B. H.  
E. B.

J. & W. SELIGMAN & Co.,  
New York, April 7, 1927.

I acknowledge receipt from J. & W. Seligman & Co., who are acting on behalf of themselves and their associates, of the sum of \$50,000 in United States currency in full payment for my services and expenses in connection with the purchase by J. & W. Seligman & Co. and F. J. Lisman & Co. of \$3,000,000 four months 6 per cent secured gold notes and \$15,000,000 secured 7 per cent sinking fund gold bonds, 1927, of the Republic of Peru.

JUAN LEGUIA.

MAY 3, 1927.

#### MEMORANDUM FOR FILES

Attached hereto is a copy of a memorandum setting forth the agreement reached between Juan Leguia and J. & W. Seligman & Co., concerning the payment to Leguia of one-half of 1 per cent of the principal amount of additional issue of the tobacco monopoly bonds. This agreement was reached in a conversation between Mr. Leguia and Mr. Breck of J. & W. Seligman & Co., in Mr. Leguia's apartments in the Ritz Towers, New York, on April 5, 1927.

Copies of this agreement were not signed by anyone, but a copy of it was handed to Mr. Leguia by Mr. Breck at Mr. Leguia's apartments in the Ritz Towers, New York, on April 13, 1927.

H. C. B.  
HENRY C. BRECK.

APRIL 8, 1927.

#### MEMORANDUM OF AGREEMENT

We agree to pay you for your compensation, commission, and expenses one-half of 1 per cent on the principal amount of any further issues of bonds the purchase and delivery of which to us is concluded under the terms of the option granted us in section 11 of article 2 of the agreement covering the purchase of \$15,000,000 secured 7 per cent sinking fund gold bonds of 1927. This amount is to be the only payment which we shall owe you for compensation, commission, or expenses in connection with such further issues, and will be paid by crediting your account with us three days after the termination of a group formed to offer such obligations to the public. In consideration of our agreement to pay such amount, you agree to render all possible aid and assistance to us in connection with any issues of bonds which we may wish to purchase under the terms of the aforementioned option and that you will at all times place your services to that end at our disposal exclusively.

MAY 3, 1927.

#### MEMORANDUM FOR FILES

The attached memorandum embodies the agreement reached between Juan Leguia and J. & W. Seligman & Co., and, so far as it concerns him, with Mr. Harold Bolster, concerning the payment of J. & W. Seligman & Co. of a commission in connection with the Peruvian refunding loan they hope to obtain. This

agreement was reached at a luncheon attended by Mr. Leguia and Messrs. White, Baillie, and Breck of J. & W. Seligman & Co. on April 7; at the Midday Club.

A copy of this agreement was handed to Mr. Leguia by Mr. Breck at Mr. Leguia's apartments in the Ritz Towers, New York, on April 13, 1927, with the statement that Mr. Breck would, if agreeable to Mr. Leguia, mail a copy of it to Mr. Bolster. Mr. Leguia stated that this was entirely agreeable to him and Mr. Breck accordingly, on the following day, mailed a copy to Mr. Bolster at 54 Riverside Drive, New York.

HENRY C. BRECK.  
H. C. B.

## MEMORANDUM OF AGREEMENT

APRIL 8, 1927.

1. You agree to use your best endeavors to the end that we may at the earliest possible date be granted an exclusive option to negotiate during the year 1927 a financial operation which has for its purpose the refunding of all or a part of the outstanding indebtedness of your country and that you will cooperate exclusively with us in every way to the end that this financial operation may be concluded during the life of such option.

2. We agree that if, before January 1, 1928, either as a result of the option mentioned above, or, failing such option, as a result of a preferential position which you secure for us, we procure the issue, sale, and delivery to us of such refunding obligations, we will pay you as compensation, commission, and expenses, an amount in cash equal to five-eighths of 1 per cent on the principal amount of any and all such obligations so sold and delivered to us, upon the understanding that out of this five-eighths of 1 per cent we are to retain and pay to Mr. Harold Bolster for your account one-eighth of 1 per cent, so that the net payment to you will be equal to one-half of 1 per cent of such principal amount. We understand that it will not be necessary for us to pay any other compensation, commission, or expenses in order to obtain this business, except payment to our own representatives or employees. It is understood that the one-half of 1 per cent to which you will be entitled will be paid by crediting that amount to your account with us three days after the termination of a group formed to offer such obligations to the public, and that at the same time we shall pay to Mr. Bolster the one-eighth of 1 per cent he is to receive as above stated.

3. You agree to cooperate at all times with us and with any of our representatives who may be endeavoring to arrange the above-mentioned matters.

APRIL 12, 1927.

Messrs. BOLSTER &amp; Co.,

*In care of Messrs. Bennett, Post & Coghill (Inc.), New York, N. Y.*

DEAR SIR: We hand you herewith our check to your order for the sum of \$15,000 in full settlement of all obligations of ourselves and our associates to you for compensation, commissions, and expenses in connection with the negotiations which resulted in the purchase by us and our associates of \$15,000,000, principal amount, of the secured 7 per cent sinking fund gold bonds, 1927, of the Republic of Peru, secured by the revenues of the tobacco monopoly of Peru.

We also confirm that we have agreed, and hereby do agree to pay to you a commission of \$25,000 in cash in case we shall conclude the purchase of any securities to be issued by the company to be formed to administer the gasoline monopoly of the Republic of Peru, such payment to be made at our office within three days after the termination of any group formed by us to offer any or all of such securities to the public for subscription.

In consideration of our payment to you of the \$15,000 above mentioned, and of our entering into the agreement respecting a commission on the gasoline monopoly business as above set forth, and of your acceptance of such payment and agreement, we confirm that you and we have further mutually agreed, and hereby do agree, to cancel and terminate any and all agreements (except those expressed in this letter) which are or have been existing between you and us respecting our obligation to pay and your right to receive commissions, compensation, or expenses in connection with Peruvian business of any nature whatsoever or respecting obligations on your part to first present to us any and all Peruvian business which may come to your attention, and that you

and we have each further agreed to, and hereby do, for each of us and our respective legal representatives and assigns, release and forever discharge the other, and his or their legal representatives and assigns, of and from all claims and demands, actions, liabilities, and obligations of every name and nature, which either of us has had, now has, or hereafter may have, against the other, under, arising out of, or in connection with, any such agreements (other than agreements expressed in this letter) relating to any such Peruvian business, or arising out of or in connection with any negotiations had in respect of business in or relating to Peru.

Your confirmation at the foot of the duplicate original of this letter will constitute this letter an agreement between us.

Very truly yours,

F. J. LISMAN & Co.

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Messrs. F. J. LISMAN & Co.,  
New York, N. Y.

DEAR SIR: I acknowledge receipt from you of your check to my order in the sum of \$15,000 in full payment of all commissions, compensation, and expenses due me in connection with the Peruvian tobacco monopoly loan, and also confirm the agreements and release expressed in the foregoing letter.

Very truly yours,

BOLSTER & Co. (INC.),  
By HAROLD BOLSTER, Pres.  
HENRY C. BRECK.

APRIL 12, 1927.

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MEMORANDUM OF AGREEMENT

NOVEMBER 21, 1927.

The following is a statement of the modifications of the agreement between you and ourselves embodied in a memorandum dated April 8, 1927, to which you and ourselves have agreed.

1. In view of the fact that it has been necessary for us and our associates to increase the purchase price for the bonds of the first series of \$50,000,000 of the Peruvian national loan from 85 to 86, you have agreed to accept in full for your compensation, commission, and expenses in connection therewith, an amount in cash equal to one-half of 1 per cent on the principal amount of \$50,000,000, in lieu of an amount equal to five-eighths of 1 per cent on such principal amount and to take care of, out of your one-half of 1 per cent, any amounts which may be due for compensation, commission, or expenses to the estate or next of kin of Mr. Harold Bolster, growing out of the arrangements with Mr. Bolster referred to in the memorandum of April 8, 1927.

2. You have further agreed that, as to the second series of bonds of approximately \$50,000,000 of the Peruvian national loan which it is contemplated we and our associates may purchase within approximately the next 18 months, the amount which we are to pay you and you are to accept, in case such bonds are sold and delivered to us, for your compensation, commission, and expenses in connection therewith shall be an amount equal to one-half of 1 per cent on the principal amount of such bonds, sold and delivered to us, provided that the spread between the purchase cost to us of such bonds and the retail offering price shall be at least five and one-half points net. If for any reason the spread is less than five and one-half points net you have agreed to consent to a reduction in the amount payable to you for compensation, commission, and expenses. The amount of this reduction is to be agreed upon between us, depending on the net spread in the business, but in no event shall the said amount payable to you be less than three-eighths of 1 per cent of the principal amount of the second series bonds.

3. In respect to all additional series of the Peruvian national loan which may be sold and delivered to us and our associates you have agreed to accept for your compensation, commission, and expenses an amount equal to three-eighths of 1 per cent on the principal amount of such bonds.

4. We have confirmed our earlier understanding with you that you will receive from us for your compensation, commission, and expenses in connection

with any bonds of the Mortgage Bank of Peru and/or the Agricultural Intermediate Credit Bank of Peru which may be sold and delivered to us after these banks are organized and commence business, a sum which is to be agreed upon between you and us. You and we recognize that it is impractical at this time to fix the amount of such compensation, commission, and expense money, but it is now intended that it shall be equal to approximately 15 per cent of our net originating profits on the business.

5. It was agreed that no other compensation or commissions in connection with the above-mentioned pieces of financing are to be payable by us.

6. Furthermore, it was agreed that our obligations to make payments to you for compensation, commissions, and expenses as above stated shall be purely personal and shall terminate in the event of your death before the payments are due and made, and is, of course, conditional upon your cooperating at all times exclusively with us and with any of our representatives who may be endeavoring to arrange the above-mentioned matters.

7. Except as modified above, the memorandum of April 8, 1927, is to remain in effect.

HENRY C. BRECK.

JANUARY 24, 1929.

Messrs. J. & W. SELIGMAN & Co.,  
New York, N. Y.

JUAN LEGUIA, Esq.,  
Care of Messrs. J. & W. Seligman & Co.,  
New York, N. Y.

DEAR SIR: I, the undersigned, Madge Kennedy Bolster, individually and as executrix of the last will and testament of Harold Bolster, deceased, in consideration of the payment to me as such executrix by J. & W. Seligman & Co., for the account of Mr. Juan Leguia of the sum of \$57,373.68, plus interest thereon at the rate of 2 per cent per annum from January 24, 1928, to the date of this letter, amounting to \$1,147.47, and making a total of \$58,521.15, the receipt of which is hereby acknowledged, do hereby confirm that I have agreed, and do hereby agree, with you and each of you, that the amount of compensation, commission, and expense moneys due to said Harold Bolster and/or his estate and/or others claiming through him in connection with or arising out of the recently created Peruvian national loan and any and all other Peruvian financing, past or future, including interest on such amount at the rate and for the period aforesaid, is said sum of \$58,521.15, receipt of which I have acknowledged, and I, said Madge Kennedy Bolster, individually and as such executrix, in consideration of such payment, do hereby further agree to exonerate, indemnify, and hold harmless said J. & W. Seligman & Co., its assigns, and any successor firm or corporation, and Juan Leguia, his heirs, executors, administrators, and assigns, jointly and severally, to the amount of \$58,521.15 against any and all claims and demands which have been or which may be made against or upon you, or either of you, at any time by any party or parties arising out of any assignment or otherwise of all or any part of the compensation, commission, and expense moneys to which said decedent Harold Bolster or his estate or others claiming with or through him was at any time entitled in connection with or arising out of said Peruvian national loan and any and all such other Peruvian financing, past or future, and I, said Madge Kenney Bolster, individually and as such executrix, in further consideration of said payment do hereby forever release and discharge said J. & W. Seligman & Co., its assigns, and any successor firm or corporation, and said Juan Leguia, his heirs, executors, administrators and assigns, jointly and severally, of and from any and all claims or rights of action which I, individually and as such executrix, now have or may hereafter have against said J. & W. Seligman & Co. and/or said Juan Leguia in respect of any compensation; commission, and expense moneys at any time due to said Harold Bolster or to his estate or to others claiming with or through him in connection with or arising out of said Peruvian national loan and any and all such other Peruvian financing, past or future.

Very truly yours,

MADGE KENNEDY BOLSTER,

*Individually, and as executrix of the last will and testament of Harold Bolster, deceased.*

Know all men by these presents that we, Madge Kennedy Bolster, of the city, county, and State of New York, individually and as executrix of the estate of Harold Bolster, deceased, and National Surety Co., a corporation, having a principal office for the transaction of business at No. 115 Broadway, city, county, and State of New York, are held and firmly bound unto Messrs. J. & W. Seligman & Co., of No. 54 Wall Street, city, county, and State of New York, and Juan Leguia, Esq., of Lima, Peru, in the sum of \$58,500, good and lawful money of the United States, to be paid to the said J. & W. Seligman & Co. and Juan Leguia, their successors, executors, administrators, and assigns, for which payment we do bind ourselves, our heirs, executors, administrators, and successors, jointly and severally, firmly by these presents.

Sealed with our seals and dated this 22d day of January, 1929.

Whereas the above named J. & W. Seligman & Co. and Juan Leguia, at the special instance and request of the above-bounden Madge Kennedy Bolster, individually and as executrix of the estate of Harold Bolster, deceased, and upon her promise and upon the obligation of the said National Surety Co. to indemnify and save harmless the said J. & W. Seligman & Co. and Juan Leguia to the extent of \$58,500 in the premises, have paid to the said Madge Kennedy Bolster, individually and as executrix, the sum of \$57,373.68, with interest at 2 per cent from January 24, 1928, in full payment of compensation, commissions, and expenses due to Harold Bolster, deceased, from Messrs. J. & W. Seligman & Co. and Juan Leguia, Esq., and either of them arising out of recently created Peruvian national loan and any and all other Peruvian financing past, present, and future, and

Whereas there are certain other claimants for compensation, commission and expenses or part thereof, basing claims upon the services of Harold Bolster, deceased, in effecting the consummation of said financing, including Clarence L. Chester, who claims directly against J. and W. Seligman Co., and Benjamin F. Castle, who claims against Mr. Bolster's estate, and Bennett, Bolster & Coghill (Inc.), and Albert F. Jaeckel, Esq.

Now, the condition of this obligation is such that if the above-bounden Madge Kennedy Bolster, individually, and as executrix of the estate of Harold Bolster, deceased, her heirs, executors, administrators and successors, and National Surety Co., and its successors, or any of them, shall well and truly indemnify and save harmless to the extent of \$58,521.15 the said J. & W. Seligman & Co. and Juan Leguia, their successors, executors and administrators, from and against any liability within said amount by reason of the said claims of said Clarence L. Chester, Esq., Benjamin F. Castle, Bennett, Bolster & Coghill (Inc.), and Albert F. Jaeckel, Esq., against J. & W. Seligman Co. and Juan Leguia, or either of them, for compensation, commission, or expenses arising out of the negotiations for or floatation of the Peruvian national loan or any other Peruvian financing, and deliver or cause to be delivered releases from Clarence L. Chester, Benjamin F. Castle, Bennett, Bolster & Coghill (Inc.), and Albert F. Jaeckel, to J. & W. Seligman Co. and Juan Leguia, or obtain an adjudication of the claims of Clarence L. Chester, Benjamin F. Castle, Bennett, Bolster & Coghill (Inc.), and Albert F. Jaeckel against the estate of Harold Bolster, deceased, J. & W. Seligman Co. and Juan Leguia, and satisfy the same, and when and as soon as the same shall be released or adjudicated, and satisfied, then this obligation is to be void, otherwise to remain in full force and virtue for the period of 10 years.

MADGE KENNEDY BOLSTER [L. S.]  
*Individually and as executrix to the  
 estate of Harold Bolster, deceased.*  
 NATIONAL SURETY CO.,  
 By ARTHUR P. WEST.

Attest:  
 [SEAL.]

N. V. TYNAN.

STATE OF NEW YORK,  
*County of New York, ss:*

On the 23d day of January, 1929, before me, came Madge Kennedy Bolster, to me known to be the individual described in and who executed the foregoing instrument, and acknowledged that she executed the same.

[SEAL.]

FRANK J. DILLON,  
*Notary Public, New York County.*

New York County clerk's No. 238, registration No. 0288; Kings County clerk's No. 162, registration No. 310; Bronx County clerk's No. 34, registration No. 3002A. Term expires March 30, 1930.

STATE OF NEW YORK,  
County of New York, ss:

On this 22d day of January, 1929, before me personally appeared Arthur P. West, vice president of the National Surety Co., with whom I am personally acquainted, who, being by me duly sworn, says that he resides in the county of New York, that he is the vice President of the National Surety Co., the corporation described in and which executed the within instrument; that he knows the corporate seal of said company; that the seal affixed to the within instrument is such corporate seal; that it was affixed by order of the board of directors of said company, and that he signed said instrument as vice president of said company by like order. And said Arthur P. West further said that he is acquainted with N. V. Tynan and knows him to be the resident assistant secretary of said company; that the signature of the said N. V. Tynan subscribed to the said instrument is in the genuine handwriting of the said N. V. Tynan and that the superintendent of insurance of the State of New York has, pursuant to chapter 33 of the laws of the State of New York for the year 1909 constituting chapter 28 of the Consolidated Laws of the State of New York known as the insurance law, as amended by chapter 182 of the laws of the State of New York for the year 1913, issued to the National Surety Co. his certificate that said company is qualified to become and be accepted as surety or guarantor on all bonds, undertakings, recognizances, guaranties, and other obligations required or permitted by law; and that such certificate has not been revoked.

[SEAL.]

TRACY A. CLUTE,  
Notary Public, Nassau County.

Certificate filed in New York County, No. 900, Register No. 0-600.

Certificate filed in Bronx County, No. 58, Register No. 3062-A.

Certificate filed in Kings County, No. 211, Register No. 475.

Certificate filed in Queens County, No. 1148.

Also in Suffolk, Richmond, and Westchester Counties.

Commission expires March 30, 1930.

COPY OF BY-LAW

Be it remembered, that at a special meeting of the board of directors of the National Surety Co., duly called and held on the 3d day of October, 1922, a quorum being present, the following by-law was adopted:

ARTICLE 13.—EXECUTION OF BONDS AND UNDERTAKINGS

SECTION. 1. *Signatures required.*—All bonds, recognizances, or contracts of indemnity, policies of insurance, and all other writings obligatory in the nature thereof, shall be signed by the chairman, vice chairman, president, a vice president, a resident vice president, or attorney in fact, and shall have the seal of the company affixed thereto, duly attested by the secretary, an assistant secretary, or resident assistant secretary. All vice presidents and resident vice presidents shall each have authority to sign such instruments, whether the president be absent or incapacitated, or not, and the assistant secretaries and resident assistant secretaries shall each have authority to seal and attest such instruments, whether the secretary be absent or incapacitated, or not; and the attorneys in fact shall each have authority, in the discretion of such attorneys in fact, to affix to such instruments an impression of the company's seal whether the secretary be absent or incapacitated, or not, or to attach the individual seal of the attorney in fact thereto, or to use the scroll of the attorney in fact, or a wafer, wax, or other similar adhesive substance affixed thereto, or a seal of paper or other similar substance affixed thereto, by mucilage or other adhesive substances, or use the word "Seal" or the letters "L. S." opposite the signature of such attorneys in fact, as the case may be.

STATE OF NEW YORK,  
County of New York, ss:

I, N. V. Tynan, resident assistant secretary of the National Surety Co., have compared the foregoing by-laws with the original thereof, as recorded in the minute book of said company, and do certify that the same is a correct

and true transcript therefrom, and of the whole of article 13, section 1 of said original by-law.

Given under my hand and seal of the company, in the county of New York, this 22d day of January, 1929.

[SEAL.]

N. V. TINAN,  
Resident Assistant Secretary.

NEW YORK, June 25, 1928.

Mr. EARL BAILIE,  
Care of Messrs. J. & W. Seligman,  
New York City.

DEAR MR. BAILIE: Herewith copy of letter exchanged with Mr. Salt and copy of letter accompanying our check.

Very truly yours,

F. J. LISMAN.

JUNE 23, 1928.

Mr. THOMAS V. SALT,  
New York City.

DEAR MR. SALT: I hereby take pleasure in confirming our conversation in accordance with which we will agree to pay you at once \$20,000 in full settlement of all your claims against us or any syndicate we are in, for compensation in any Peruvian business now or hereafter.

We also agree to pay you, if and when the now pending merger of the General Vending Corporation into the Consolidated Automatic Merchandising Corporation becomes effective, the sum of \$50,000 for your holdings of 1,945 shares of General Vending Corporation stock allotted to you, now under escrow agreement and your interest of 2,177 shares in the option of the General Vending Corporation stock which we now hold. This obligation to become absolute on the day on which we pay for the shares of the Consolidated Automatic Merchandising Corporation to the Central Union Trust Co. and the payments thereunder are to be made, \$5,000 within 10 days after the date of such issue and the balance to your order at the rate of \$5,000 per month. This purchase of General Vending stock, if made, will not only settle the General Vending matter but will also include whatever claim you may have against us in the Chicago Traction situation in case our negotiations there should be successful, and in all other matters.

Will you kindly confirm?

Very truly yours,

Approved.

Approved and accepted.

F. J. LISMAN & Co.

KENNETH M. SPENCE.

T. V. SALT.

JUNE 25, 1928.

Mr. THOMAS V. SALT,  
New York City.

DEAR MR. SALT: In accordance with our letter of Saturday which has been approved by your good self and your counsel, we hand you herewith our check for \$20,000, in full settlement of your claims against us or any syndicate we are in, in connection with any Peruvian business we have had heretofore or which we may have hereafter.

Kindly acknowledge receipt of this, and oblige.

Very truly yours,

F. J. LISMAN & Co.

Inclosed, check \$20,000.

Know all men by these presents, that I, Thomas V. Salt, of the city, county, and State of New York, for and in consideration of the sum of \$20,000, lawful money of the United States of America, to me in hand paid, the receipt whereof is hereby acknowledged, have remised, released, and forever discharged, and by these presents do for myself, my heirs, executors, administrators, and as-

signs, remise, release, and forever discharge, F. J. Lisman & Co., a copartnership of the city and State of New York, and the members thereof, as such copartnership has been, is, or at any time shall be constituted, J. & W. Seligman & Co., a copartnership of the city and State of New York, and the members thereof, as such copartnership has been, is, or at any time shall be constituted, The National City Co., a New York corporation, the National City Bank of New York, a corporation of the United States of America, Blyth, Witter & Co., a California corporation, White, Weld & Co., a copartnership of the city and State of New York, and the members thereof, as such copartnership has been, is, or at any time shall be constituted, and Guaranty Co. of New York, a New York corporation, both individually and as members of any group or groups or of any syndicate or syndicates, and each of them, of and from all cause and causes of actions, agreements, promises, claims, and demands whatsoever, in law or in equity, which against the said copartnerships, members thereof, and corporations, or any of them, I ever had, now have, or which I or my heirs, executors, administrators, or assigns hereafter can, shall, or may have for compensation, commissions, and/or expenses for or arising out of any services rendered by me in connection with any issue or issues of bonds, notes, or other obligations of the Republic of Peru and/or of any Province, District, and/or municipality thereof and/or of any corporation, association, or firm located in the Republic of Peru, and generally in connection with any Peruvian financing, past, present, or future, from the beginning of the world to the day of the date of these presents.

In witness whereof, I have hereunto set my hand and seal this 5th day of July, 1928.

T. V. SALT. [L. s.]

Signed, sealed, and delivered in the presence of:

WILLIAM E. LOTZ, *Witness.*

STATE OF NEW YORK,  
*County of New York, ss:*

On this 5th day of July, 1928, before me, a notary public in and for the State and county aforesaid, personally came Thomas V. Salt to me known, and known to me to be the individual described in and who executed the foregoing instrument, and he acknowledged to me that he had executed the same as in for his free act and deed for the purposes therein set forth.

In witness whereof I have hereunto subscribed my name and affixed my seal of office the day and year last above written.

[SEAL.]

GLADYS McKENNA, *Notary Public.*

My commission expires March 30, 1930.

EXHIBIT No. 14

JANUARY 16, 1932.

MEMORANDUM—ACCOUNTS OF JUAN LEGUIA WITH J. & W. SELIGMAN & Co.

Attached hereto are:

(a) Transcript of the account "Juan Leguia" from the date the account was opened on April 8, 1927, to the present time.

(b) Transcript of the account "Juan Leguia reserve for Bolster claim" from the date the account was opened on January 24, 1928, until it was closed on January 24, 1929.

(c) Transcript of the account "Juan Leguia special reserve account" from the date the account was opened on December 18, 1928, until it was closed on May 15, 1929.

In connection with these documents, the following explanations of certain matters disclosed by the transcripts may be informing.

1. The balance in the account "Juan Leguia" at the present time is \$73.01. Mr. Breck, therefore, desires to correct his testimony before the committee when, speaking from memory, he stated (pp. 863 and 868 of the transcript of testimony) to the committee that the account had no money in it at the present time.

2. Two loans were made by J. & W. Seligman & Co. to Juan Leguia, as follows:

(a) On August 17, 1928, a 6-month loan of \$30,000 was made, which was repaid with interest on December 18, 1928.

(b) On September 25, 1928, a 30-day loan of \$15,000 was made, which was repaid with interest on October 25, 1928.

Mr. Breck, therefore, desires to correct his testimony before the committee when, speaking from memory, he stated (p. 898 of the transcript of testimony) that he thought no credit had been extended by J. & W. Seligman & Co. to Mr. Juan Leguia. Both the foregoing loans were made in New York while Mr. Breck was in Peru.

3. In addition, the account of Mr. Juan Leguia was permitted to be overdrawn from time to time, but only while he had on deposit with J. & W. Seligman & Co. satisfactory collateral consisting of Republic of Peru 6 per cent bonds of 1900 (which he had purchased from funds to the credit of his account) and of money loaned on call for his account secured by stock-exchange collateral, as explained in paragraph 4 below. From time to time varying amounts of the bonds were sold and the proceeds applied to reduce or extinguish overdraft in the account. Moneys placed to the credit of his account from time to time came not only from the commissions paid to him on Peruvian financing but also from substantial deposits which he made from time to time.

4. On May 2, 1928, \$40,000 of the credit balance of Mr. Juan Leguia's account was, at his request, loaned on call in New York City for his account against stock-exchange collateral. Later, on July 11, 1928, upon his request, this loan was called and the proceeds recredited to his account.

5. The account "Juan Leguia reserve for Bolster claim" is explainable by reference to the preceding Exhibit No. 13.

6. The account "Juan Leguia special reserve account" was opened on the books of J. & W. Seligman & Co. by transfers from the account "Juan Leguia" (see p. 10 of the transcript thereof). The amounts thus transferred were applied to meet the several payments listed in the account "Juan Leguia special reserve account."

## EXHIBIT No. 14

## JUAN LEGUIA IN ACCOUNT WITH J. &amp; W. SELIGMAN &amp; CO.

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1927						
Apr. 8	Deposit.....				\$50,000.00	
11	Draft 1.....			\$5,000.00		
May 7	Draft 2.....			5,000.00		
11	Draft 9.....			16,000.00		
16	Draft 12.....			600.00		
19	Draft 11.....			2,000.00		
June 11	Draft 13.....			1,400.00		
16	Draft 14.....			200.00		
23	Draft 15/17.....			1,000.00		
30	2 per cent credit interest.....				139.51	\$18,939.51
July 8	Drafts 16/17.....			1,200.00		
14	Drafts 18/19.....			1,500.00		
18	Drafts 20.....			500.00		
	Check.....			500.00		
10	Draft 21.....			800.00		
25	Draft 22/24.....			3,500.00		
28	Draft 26.....			2,000.00		
Aug. 1	Draft 27.....			500.00		
3	do.....			237.00		
	Draft 363, 45, 13, at 4.85½.....			522.00		
Oct. 11	Draft 3.....			221.63		
26	Draft 1.....			750.00		
27	Draft 2.....			50.00		
29	Draft 4.....			120.00		
31	do.....			500.00		
	Deposit.....			785.22		
	Draft.....				15,000.00	
				35.00		

<sup>1</sup> Credit.

EXHIBIT No. 14—Continued

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1927						
Nov. 3	Draft 7			\$50.00		
5	do			6.33		
7	Draft 8			9.45		
9	Draft 3			10.00		
10	Draft 4			750.00		
21	do			40.00		
22	do			150.00		
23	do			50.00		
28	do			50.00		
29	do			150.00		
30	do			390.00		
	do			287.85		
	do			4,000.00		
Dec. 2	do			2,000.00		
	do			1,056.00		
3	do			500.00		
	do			500.00		
	do			250.00		
	do			1,703.63		
6	Cable payment, Harry Sampers			1,200.00		
	Cancellation of debit entry				\$1,200.00	\$7,935.41
19	Draft 5			750.00		
21	Cable payment, Harry Sampers			1,520.00		
	Payment, Colt Stewart & Foy			1,470.00		
	Cancellation of debit entry				1,520.00	
24	Cable charges Dec. 13			18.72		
	Cable charges Dec. 16			17.68		
27	2 per cent credit interest to Dec. 25				104.70	
28	Cable charges Dec. 24			7.70		
30	\$210,500, Republic of Peru 6 per cent	91 1/2		193,624.92		\$187,848.91
1928						
Jan. 4	Check			5,000.00		
11	do			4.60		
	Check 6			750.00		
14	2 1/2 per cent commission a/c sale of \$210,500 Peru 6 per cent				5,262.50	
17	Cable charges Jan. 7			10.50		
24					187,500.00	
30	Cable charges Jan. 20			2.88		
31	Check 10			2,000.00		
Feb. 7	do			1,000.00		
8	Check 101			190.00		
9	Check 100			37.00		
10	Check 104			2,000.00		
16	Check 7			750.00		
	Check 107/9			4,000.00		
17	Check 106			500.00		
23	Check 111/2			12,618.40		
29	Check 102			500.00		
	Check 103			150.00		
Mar. 8	Check 114			2,000.00		
14	Check 8			1,000.00		
16	Check 116/8			2,106.00		
23	Check 119/120			2,800.00		
	Check 121			1,500.00		
	Check 123			1,000.00		
Apr. 3	Check 124			1,000.00		
	Check 120			2,000.00		
5	Check 28			300.00		
	do			100.00		
7	do			350.00		
9	Check 130			100.00		
	Check 131			100.00		
10	do			150.00		
	Check 1			100.00		
11	do			100.00		
	Check 3			40.00		
13	Check 2			1,150.00		
	Check 9			100.00		
16	do			146.25		
	do			8.00		
	Check 115			250.00		
	Check					

<sup>1</sup> Credit.

<sup>2</sup> Debit.

EXHIBIT No. 14—Continued

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1928						
Apr. 17	Check			\$200.00		
	do			494.00		
18	do			35.00		
19	do			200.00		
20	do			300.00		
	do			275.00		\$42,604.02
21	Cost of translation of annual report of Society Agrícola Huayto			17.52		
	Check			200.00		
	do			90.00		
23	do			250.00		
	Deposit				\$2,000.00	
	Check			100.00		
24	\$40,000 Republic of Peru 6 per cent	93 1/2			38,273.33	
	Check			500.00		
	do			50.00		
	Cost of translation of 1927 report of Hacienda Huayto			9.60		
26	Check 130			50.00		
	do			550.00		
	do			100.00		
	do			35.00		
27	do			60.00		
	do			159.85		
	Check 127			2,000.00		
	do			1,600.00		
28	Check 129			200.00		
	do			10,000.00		
	do			60.00		
30	\$65,000 Republic of Peru 6 per cent 8/93 - 8/93				62,917.00	
	\$34,000 Republic of Peru 6 per cent 10/93 - 2/93 - 2/93				32,471.33	
	Translation of 1 document			28.44		
	Check			25,000.00		
May 1	\$2,000 Republic of Peru 6 per cent	93			1,918.00	
	Check			600.00		
	do			120.00		
	do			100.00		
	do			25.00		
2	Loaned on call			40,000.00		
	Check			93.40		
3	do			10,000.00		
	do			100.00		
4	do			50.00		
	Check 1			600.00		
7	Check 2			120.00		
	do			100.00		
	Check 4			700.00		
8	Check 3			719.82		
	Check 5			500.00		
	do			50.00		
9	do			50.00		
	do			181.90		
	do			60.00		
	do			50.00		
	do			20.00		
10	do			50.00		
	do			100.00		
11	Check			100.00		
12	do			564.76		
14	Check 6			95.00		
	Check 9			150.00		
	Check 125			500.00		
15	Check 7			165.00		
	Check 8			3,500.00		
18	do			100.00		
	do			650.00		
21	Check 11			270.00		
	do			325.00		
	do			128.63		
22	Check 200			150.00		
	Check 30			45.00		
	Check 40			225.00		
	do			100.00		
	Check 50			400.00		1446.89

1 Credit

EXHIBIT No. 14—Continued

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1929						
May 22	Check 50			\$50.00		
23	do			100.00		
	do			50.00		
	Check 40			150.00		
	do			202.00		
26	do			1,000.00		
28	do			50.00		
	do			100.00		
	do			200.00		
29	do			21.00		
	do			60.00		
	do			5,000.00		
	do			150.00		
31	do			100.00		
	do			12.00		
	Check 60			100.00		
	do			250.00		
June 1	C. P. N. S. 36, 600, Peru 6 per cent				\$2,055.00	\$15,510.27
	Interest for May on loan on call				173.65	
2	Check 60			325.50		
	Check 90			240.00		
5	Check 1			100.00		
	Check 60			450.00		
6	do			155.00		
	do			62.15		
7	do			100.00		
	do			300.00		\$ 15,015.27
7	Check			200.00		
	do			25.00		
	Check 200			250.00		
8	Check			200.00		
	do			25.00		
9	do			203.00		
	do			3.85		
12	Check 120			320.00		
	Draft 1			2,000.00		
13	Check			100.00		
	do			250.00		
15	do			104.00		
18	do			1,000.00		
19	do			1,215.22		
	do			100.00		
	do			50.00		
	do			50.00		
21	do			100.00		
	do			190.00		
	do			800.00		
	do			410.00		
	do			2,000.00		
22	Check 300			941.00		
23	Check 400			6,000.00		
	Check 500			150.00		
	Check			270.00		
	Check 750			185.00		
	Check			270.00		
25	6 per cent debit less 2 per cent credit					
	Interest			1,218.32		
	Custody of securities to June 30			105.50		
26	Check 242			1,000.00		
	Check 775			100.00		
	Check 850			100.00		
	Check			100.00		
	Check 225			1,000.00		
	Check			173.00		
27	Check 91			50.00		
	Check			60.00		
28	Check 94			500.00		
	Check 245			200.00		
	Check 777			444.50		
29	Check			2,000.00		
	Check 888			100.00		
30	Check 977			200.00		\$ 39,778.66
July 2	Check 404			250.00		
	Check 405			1,190.00		
	Check 407			50.00		
	Check			10.00		
	Interest for June on loans on call				193.70	

\* Debit.

## EXHIBIT No. 14—Continued

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1929						
July 3	Check 1110.....			\$450.00		
	Check 789.....			250.00		
	Check 994.....			130.00		
	Check.....			2,000.00		
5	Check 111.....			50.00		
	Check 431.....			1,000.00		
	Check.....			35.45		
	do.....			200.00		
	do.....			24.00		
	Check 1103.....			91.00		
6	Check.....			100.00		
	do.....			218.55		
	do.....			289.60		
	do.....			497.50		
7	do.....			494.84		
	do.....			60.00		
9	\$4,000, Peru 6 per cent, 1960.....		91 $\frac{3}{4}$		\$3,652.33	
	\$6,000, Peru 6 per cent, 1960.....		91 $\frac{3}{4}$		5,523.50	
10	\$3,000, Peru 6 per cent, 1960.....		91 $\frac{3}{4}$		2,762.25	
	Draft 2.....			2,000.00		
11	Amount of call loan returned.....				40,000.00	
	Check.....			50.00		
	do.....			29.56		
	Check 239.....			18,520.00		
12	Check.....			132.00		
	do.....			25.00		
13	do.....			50.00		
14	do.....			150.00		
17	do.....			8,000.00		
18	do.....			50.00		
	do.....			4,500.00		
19	do.....			100.00		
20	Graham-Paige Co., Washington.....			611.67		
21	Check.....			45.00		
23	Note to order, Samuel A. Maginnis.....			5,000.00		
25	Check.....			50.00		
31	\$40,000, Peru 6 per cent, 1960.....		91		36,680.00	
	Check.....			40.00		
	Check 1.....			50.00		
Aug. 1	Draft 3.....			2,000.00		
	Check 2.....			200.00		
	Check 5.....			794.00		
	Check 6.....			70.00		
	Check 7.....			45.00		
	Check 8.....			250.00		\$1,420.05
	Deposit.....				975.00	
	Do.....				345.00	
	Interest, June 30-July 11, on money loaned on call.....				76.53	
2	Check 9.....			50.00		
3	Check 9.....			108.00		
	Check 11.....			87.50		
	Check 12.....			25.00		
4	Check 3.....			201.49		
6	Check 4.....			143.30		
	Check 14.....			400.00		
8	Check 15.....			960.00		
	Check 16.....			114.70		
	Check 17.....			300.00		
	Check 18.....			419.15		
9	Check 19.....			200.00		
	Check 20.....			25.00		
	Check 21.....			94.00		
10	Check 13.....			351.31		
15	Check 25.....			50.00		
	Check 23.....			83.00		
16	Check 28.....			100.00		
	Check 26.....			75.00		
17	\$6,000, Republic of Peru 6 per cent, 1960.....		90 $\frac{1}{4}$		5,479.00	
	Check 22.....			6.27		
	Check 2000.....			400.00		
	Draft, account Graham-Paige Co. 6 months' loan.....			611.67		
					30,000.00	

\* Debit.

EXHIBIT No. 14—Continued

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1928						
Aug. 20	Check 1.....			\$500.00		
	Check 27.....			87.00		
	Check 29.....			100.00		
	Draft 1.....			2,000.00		
	Draft 1, National Road Co., Lima.....			20,000.00		
21	Deposit.....				\$5,214.69	
22	Check 2.....			3,044.65		
	Check 3.....			1,669.70		
	Check 4.....			200.00		
	Cash.....			1,500.00		
23	Do.....			1,000.00		
	Check 8.....			100.00		
24	Check 11.....			135.00		
	Check 13.....			705.00		
	Check 14.....			149.00		
	Check 7.....			117.00		
	Check.....			1,600.00		
25	Check 12.....			550.00		
28	Check 10.....			1,000.00		
29	Deposit.....				15,000.00	
	Difference between call price at 100 and sale price at 93 $\frac{1}{4}$ of \$1,000 Peru 6 per cent, sold Apr. 27.....				68.75	\$16,326.18
Sept. 1	Draft 16, London.....			5,000.00		
4	Cablegrams in August.....			6.03		
	Draft 2.....			4,000.00		
8	Draft 15.....			1,000.00		
10	Commission on draft, account L/C 2108.....			2.50		
	Draft, L/C 2108.....			500.00		
11	do.....			4,500.00		
	Commission on same.....			22.50		
12	\$9,000, Peru 6 per cent (3,000 at 90 $\frac{1}{4}$ -6,000 at 90 $\frac{1}{2}$ ).....				8,252.25	
	\$500, Peru 6 per cent.....		90 $\frac{1}{4}$		458.67	
19	Draft 3.....			3,000.00		
20	Draft of Graham-Palge Co.....			611.67		
	Draft 17.....			1,000.00		
	Draft 23/26.....			1,653.00		
21	Check.....			2,000.00		
	Check 19/20.....			3,500.00		
	Check 26.....			100.00		
22	Check 22.....			1,000.00		
	Check 27.....			195.00		
24	Cash.....			200.00		
25	Check 28.....			220.00		
	Check.....			10,000.00		
	30-day note due Oct. 25, interest at 6 per cent.....				15,000.00	
26	Cash.....			150.00		
	Check 30.....			17.60		
29	Check 29-31/33.....			850.00		
Oct. 1	By deposit.....				5,000.00	
2	Check 21.....			150.00		
	Check 35.....			100.00		
	do.....			100.00		
	Check.....			100.00		
4	McVickar & Co.....				4,055.46	
	Check 3.....			1,106.40		
	Cash.....			600.00		
5	Check 5.....			50.00		
	Check 36.....			224.60		
	Check 144.....			565.00		
	Check 19.....			1,000.00		
6	Check 4.....			140.00		
	Check 7.....			118.75		
8	Check.....			205.00		
	Check 1.....			208.51		
	Check 37.....			80.00		
10	Check 38.....			46.00		
	Check.....			3,739.00		
11	Check 2.....			200.00		
13	Check 39.....			5.00		
15	Check.....			50.00		
24	Check 1.....			100.00		1703.10

<sup>1</sup> Credit.

## EXHIBIT No. 14—Continued

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1928						
Oct. 25	30-days note due			\$15,000.00		
	30 days interest, at 6 per cent			75.00		
27	Check 2			100.00		
Nov. 5	National City Bank C/payment, J. Finlay			4,000.00	\$4,000.00	
	Check 7			1,500.00		
16	Draft 8			2,000.00		
21	Draft 9			2,000.00		
22	Draft 4			1,150.00		
27	Draft 6			2,000.00		
28	Draft 5			152.91		
30	National City Bank				4,000.00	
Dec. 3	Erie City Iron Works			1,245.00		
	Charles W. McHose			684.00		
	One-half per cent commission			9.65		
5	Drafts 7/8			2,000.00		
11	Drafts 8/9			3,000.00		
18					173,665.00	
	\$30,000, note due Feb. 17, 1929, plus interest at 6 per cent			30,615.00		
	Transfers to special reserve account to meet your check paid by Equitable Trust Co, Paris			40,000.00		
	To meet payments under our letter of credit in favor of Mechanical Manufacturing Co. \$11,600, and commission \$29.50			11,629.50		
	To meet 4 acceptances \$380 each, favor Chas. W. McHose			1,520.00		
	To meet 4 acceptances \$620 each, favor Erie City Iron Works			2,480.00		
19	Draft 10			6,000.00		
	Drafts 11/13			3,000.00		
24	6 per cent debit less 2 per cent credit interest			304.38		
	Custody of securities			4.00		
26	Draft 14			3,000.00		
	Draft 16			1,000.00		
27	Draft 17			2,500.00		
31	Cable charges			23.70		\$44,874.96
1929						
Jan. 2	Draft 18			1,000.00		
	Draft 19			1,000.00		
	Draft 21			2,000.00		
3	Draft 20			300.00		
9	Draft 22			2,000.00		
	Draft 23			500.00		
	Draft 24			1,000.00		
	Draft 25			1,000.00		
	Draft 26			2,500.00		
14	5 per cent Federal income tax withheld on \$443.68 interest on loans on call May, June, and July, 1928.			22.19		
16	Drafts 27-28			12,000.00		
22	Draft 1			1,500.00		
	Draft 3			500.00		
	Draft 5			2,500.00		
23	Draft 4			200.00		
	Draft 29			90.00		
24	Transfer Juan Leguia reserve for bolster claim.				5,235.96	
26	Draft 2			92.50		
31	Draft 8			4,000.00		
Feb. 1	Drafts 6, 7			3,000.00		
	Draft 9			2,000.00		
2	National City Bank				4,000.00	
4	Cable charges			4.68		
5	Drafts 10, 11			3,000.00		
14	Draft 12			800.00		
	Draft 12			10,000.00		
19	Draft 14			2,000.00		
Mar. 6	National City Bank				8,000.00	
13	Drafts 16-17			6,000.00		
15	Draft 15			750.00		
20	Draft 18			2,000.00		

<sup>a</sup> Credit.

EXHIBIT No. 14--Continued

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1929						
Mar. 26	Draft 19.....			\$619.50		
28	Deposit.....	Mar. 27			\$2,300.00	
29	Cable charges Mar. 26.....			9.88		
Apr. 2	Draft 20.....			2,000.00		
6	Equitable Trust Co.....				4,000.00	
11	Draft 21.....			4,000.00		
17	Draft 23.....	Apr. 16		2,000.00		
	Chase National Bank.....				2,000.00	
22	Draft 22.....			8,000.00		
23	National City Bank.....	Apr. 5			6,956.60	
25	Chase National Bank.....				8,000.00	
30	Cable charges Apr. 16 and 23.....			66.68		\$5,922.11
May 3	National City Bank.....				8,000.00	
9	Draft 1.....			8,000.00		
15	Transfer special reserve account.....				72.71	
22	Draft 25.....			2,183.75		
27	Draft 24.....			2,000.00		
29	Draft 23.....			246.90		
31	Cable charges.....			4.42		
June 5	Draft 27.....			106.33		
8	Draft 26.....			30.00		
10	Draft 28.....			149.25		
11	Draft 29.....			50.00		
24	2 per cent credit interest.....				105.61	
25	Draft 30.....			3.00		
	Additional interest to June 24.....				26.40	\$1,383.18
July 23	Draft 40.....			100.00		
31	Draft 41.....			75.00		
	Cable charges.....			3.12		
Aug. 3	National City Bank.....				20,000.00	
6	Draft 42.....			20,000.00		
17	Royal Bank of Canada.....				4,100.00	
19	Draft 44.....			2,400.00		
20	Draft 43.....			1,696.97		
Sept. 3	Royal Bank of Canada.....				8,600.00	
4	Draft 45.....			8,600.00		
7	Royal Bank of Canada.....				10,000.00	
10	Draft 47.....			10,000.00		
11	Draft 46.....			65.00		
Oct. 15	Drafts 49-50.....			749.65		
24	Draft 48.....			182.16		
26	National City Bank.....				7,000.00	
29	Draft 51.....			7,000.00		
Dec. 21	2½ per cent interest.....				18.52	\$1,239.60
1930						
Jan. 18	Draft 52.....			16.00		
Feb. 27	do.....			6.00		
Mar. 14	Draft 53.....			60.00		
24	Draft 54.....			20.00		\$117.80
June 30	Balance.....					\$117.80
Aug. 14	Draft.....			43.79		
15	Draft 22.....			1.00		\$73.01

JUAN LEGUIA—RESERVE FOR BOLSTER CLAIM—IN ACCOUNT WITH J. & W. SELIGMAN & CO.

1928						
Jan. 24					\$62,500.00	
June 25	2 per cent credit interest.....				524.31	
Dec. 24	do.....				626.74	\$63,651.05
1929						
Jan. 24	To settle claim of estate of Harold Bolster.....	\$57,373.66				
	1 year's interest at 2 per cent, to Jan. 24, 1929.....	1,147.47				
	2 per cent credit interest to date.....			\$58,521.16		
	Transfer, Juan Leguia.....			6,235.98	106.08	

<sup>1</sup> Credit.

## EXHIBIT No. 14—Continued

JUAN LEGUIA—SPECIAL-RESERVE ACCOUNT—IN ACCOUNT WITH J. & W. SELIGMAN & CO.

Date	Description	Value date	Price	Amount		Last amount in this column is balance of your account
				Debit	Credit	
1928 Dec. 18	Transfer, Juan Leguia, to meet his check paid by Equitable Trust Co., Paris				\$40,000.00	
	Meet payments under our letter of credit favor Mechanical Manufacturing Co. for \$11,800, plus commission, \$29.50				11,829.50	
	Meet 4 acceptances, \$360 each, favor Charles W. McHose				1,520.00	
	Meet 4 acceptances, \$620 each, favor Erie City Iron Works				2,480.00	
20	Mechanical Manufacturing Co.			\$4,300.00		
	Commission on \$11,800			29.50		
21	Check paid by Equitable Trust Co., Paris, No. 18			40,000.00		
24	2 per cent credit interest				10.98	\$11,510.98
31	Balance				11,510.98	
1929 Feb. 14	Account favor Erie City Iron Works			620.00		
	Account favor Charles W. McHose			380.00		
Mar. 13	Account favor Erie City Iron Works			620.00		
15	Account favor Mechanical Manufacturing Co.			3,500.00		
18	Account favor Charles W. McHose			380.00		
Apr. 15	do.			380.00		
	Account favor Mechanical Manufacturing Co.			4,000.00		
17	Account favor Erie City Iron Works			620.00		
May 13	do.			620.00		
15	Account favor Charles W. McHose			380.00		
	2 per cent credit interest				61.73	
	Transfer dollar account			72.71		

<sup>1</sup> Credit.

## EXHIBIT 15

## CONTRACT OF PURCHASE SALE OF THE BONDS

The Province of Callao, party of the one part, hereinafter called the Province, represented by its council, hereinafter called the council, the latter represented by its syndics, Messrs. Otoniel Villamonte and Eduardo Freundt and Alvin H. Frank & Co., a corporation of the State of California, United States of America, hereinafter called the Frank Co., represented by its vice president, Mr. Robert Edmund Moody, party of the other part; with the participation also of the Government of Peru, represented by the Director General of Finance, Dr. Francisco Quiroz Vega; have agreed to make a contract of purchase and sale of bonds in the following terms:

First. The council and the Government of Peru declare that all of the data set forth in the contract of issue of bonds including the appendices thereto, providing for bonds of a total amount of \$1,500,000 executed on this date, are correct and exactly in accord with the facts, and that in the execution of the said contract of issue and the execution of the present contract for the sale of bonds, the formalities required by the laws of Peru have been observed.

Second. The Province agrees to sell and the Frank Co. agrees to buy the total amount of the bonds of a principal amount of \$1,500,000, to be issued as set forth in the preceding clause, and bearing the guarantee and obligation of the Republic of Peru, at 92½ per cent of their face amount, plus interest accrued to the date of payment, in accordance with the conditions set forth in the following clauses.

Third. Upon such date and at such hour as the Frank Co. may designate, which, however, shall not be later than 30 days after the date on which the Central Union Trust Co. and J. & W. Seligman & Co. have respectively accepted the offices of trustee and fiscal agent of the bonds in accordance with the provisions of the issue contract, the council shall deliver to the Frank Co., at the principal office of the trustee in New York, the temporary bonds, and simultaneously therewith the Frank Co. shall pay the purchase price by depositing the amount with the trustee. The trustee shall apply the amount so deposited as follows:

1. It shall deliver to the fiscal agent:

(a) The sum of \$82,500 as a guaranty fund in accordance with the stipulations of the contract of issue.

(b) The sum of \$82,500 to meet the service of the loan due on the next succeeding June 1.

(c) The sum of \$15,000 which the Frank Co. considers sufficient to attend to the payment of all the expenses of issue payable in the United States by the council in accordance with the issue contract, the fiscal agent being authorized to apply such sum to the payment of the said expenses in the United States, for which purpose the instructions of the Frank Co. shall be sufficient. The said expenses shall not, however, include future expenses relating to the service of the loan or to default thereon, such as expenses of publication of notices and others for the payment of interest, drawings, and amortizations, nor compensation, cost, and expenses of the trustee and of the fiscal agent, all such expenses being payable by the Province.

2. It shall remit to the Lima branch of the Royal Bank of Canada a sum equivalent in Lima to Lp. 55,000.00 at the current rate of exchange with directions that the sum so received immediately be applied by the Royal Bank of Canada to the payment of the amounts which the Province owes to the Banco del Peru y Londres and to the former Compania Recaudadora de Impuestos in accordance with the instructions contained in clause ninth of the contract of trust and fiscal agency, also designated as "Contract of issue of bonds," and the Royal Bank of Canada shall by such payments obtain the cancellation by the said entities of any liens or charges in their favor affecting the properties or revenues given in guaranty of the said bonds and furnish evidence thereof to the trustee.

3. It shall remit the balance to the Lima Branch of the Royal Bank of Canada with instructions to place it at the disposition of the council as soon as the cancellation of the liens and charges, as provided in the preceding paragraph, is completed.

Fourth. The Frank Co. will procure that the expenses of the issue in the United States will be analogous and proportionate to the expenses usual in such operations and contracts in the United States and will account for the same to the council, the council being entitled to the remainder or balance if such expenses should be less than \$15,000 American gold.

Fifth. The temporary bonds will be exchanged for the definitive bonds in the manner provided in the contract of issue. Upon request of the Frank Co. the Director General of Finance of the Republic and the council will furnish for use in connection with the public issue of the bonds a letter in customary form signed by the director general of finance, and the syndics of council, describing the resources and revenues of the Province and the Republic and giving other information relative to the bonds.

Sixth. The Frank Co. assumes no liability for the amounts in accordance with the third clause and which remain in possession of the fiscal agent, nor for the amounts remitted to Lima.

Seventh. If at any time up to the day of delivery of the temporary bonds and payment therefor, any financial, political, or other conditions should, in the unrestricted judgment of the Frank Co., render the sale or delivery of the said bonds to the public impracticable or inadvisable, the Frank Co. shall have the right to withdraw from this contract and to be reimbursed by the council to its expenses.

Eighth. The council declares and guarantees that during the period of 90 days before the date of this contract it has not negotiated nor placed any loan or bonds payable in American gold dollars, or in pounds sterling, and that during the same period of 90 days after the date of this contract no loan payable in American gold dollars or in Peruvian pounds will be issued or negotiated.

Ninth. It is expressly agreed that the Frank Co. is authorized to assign and transfer all or any rights and obligations accruing to it either under this contract or under the contract of issue.

Tenth. The Government of Peru represented by the director general of finance, Dr. Francisco Quiroz Vega, signs the present contract to express the approval of the same by the Government of Peru.

Eleventh. This contract is executed in the English and Spanish languages, but the English text shall govern in the interpretation of its terms.

For the expenses in the United States relating to the contracts of issue and purchase sale of bonds, and to the present contract mentioned in clause twentieth of the contract of issue and in clause third of the purchase-sale contract, but excepting future expenses relating to the service of the loan such as those of publication of notices and others for the payment of interest, drawings, and amortizations, and expenses of the trustee and of the fiscal agent by reason of such service, the council contributes the sum of \$15,000, it being understood that in case of excess over the said amount, the said excess shall be for account of the Frank Co.

LIMA, April 25 of 1927.

[SEAL.]

[SEAL.]

[SEAL.]

FCO. QUIROZ VEGA.  
*Director General of Finance.*  
 EDUARDO FREUNDT.  
*Syndic in Charge of Disbursements.*  
 O. VILLAMONTE.  
*Syndic in Charge of Revenues.*  
 ALVIN H. FRANK & Co.,  
 By FRANCIS F. RANDOLPH,  
*Attorney in Fact.*

AMERICAN CONSULAR SERVICE

REPUBLIC OF PERU,  
*City of Lima:*

I, George A. Makinson, consul of the United States of America, in and for the district of Callao-Lima, Peru, duly commissioned and qualified, do hereby certify that F. Quiroz Vega, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, Director General de Hacienda (director general of the ministry of finance), of Peru, and that Eduardo Freundt, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, *sindico de gastos del consejo provincial del Callao* (syndic of expenses of the provincial council of Callao, Peru), and that O. Villamonte, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, *sindico de rentas del concejo provincial del Callao* (syndic of incomes of the provincial council of Callao, Peru), and that their respective signatures and seals of office as such are worthy of all due faith and credit.

In witness whereof, I have hereunto set my hand and official seal of office, at Callao-Lima, Peru, aforesaid, this 27th day of April, 1927.

[SEAL.]

GEO. A. MAKINSON,  
*Consul of the United States of America at Callao-Lima, Peru.*

Serial No. 693, fee \$2.

STATE OF NEW YORK,  
*County of New York, ss:*

On this 17th day of May, 1927, before me came Francis F. Randolph, to me known to be the individual described in a certain power of attorney executed in the city of Los Angeles, State of California, on the 7th day of March, 1927, by Alvin H. Frank & Co., and said Francis F. Randolph acknowledged that he executed the foregoing instrument on behalf of Alvin H. Frank & Co., pursuant to authority granted to him in the said power of attorney.

[SEAL.]

CHARLES STEIGER,  
*Notary Public, Kings County.*

No. 562, reg. No. 8670, cert. filed in New York County, No. 1650, reg. No. 8170A. Commission expires March 30, 1928.

[No. 27978]

STATE OF NEW YORK,  
County of New York, ss:

I, William T. Collins, clerk of the county of New York, and also clerk of the supreme court for the said county, being a court of record, do hereby certify, that Charles Steiger, before, or by whom, the annexed instrument was signed, was at the date thereof a notary public for the county of New York, duly appointed and sworn, and that full faith and credit are due to all of his official acts as such notary public. And further, that I am well acquainted with the handwriting of such notary public and verily believe that the signature to the annexed instrument is genuine.

In testimony whereof I have hereunto set my hand and affixed the seal of the said court and county the 18th day of May, 1927.

[SEAL.]

WILLIAM T. COLLINS, *Clerk.*

## EXHIBIT No. 16

PROVINCE OF CALLAO, PERU—\$1,500,000 GUARANTEED AND SECURED SINKING FUND  
7½ PER CENT GOLD BONDS, DATED JANUARY 1, 1927—CONTRACT OF ISSUE OF  
BONDS, TRUST AND FISCAL AGENCY AGREEMENT DATED APRIL 25, 1927

## CONTRACT OF ISSUE OF BONDS (ALSO KNOWN AS TRUST AND FISCAL AGREEMENT)

The Republic of Peru, hereinafter called the "Republic" represented by the Director General of Finance, Dr. Francisco Quiroz Vega, and the Province of Callao, hereinafter called the "Province," represented by its provincial council, and the latter in turn by its syndics, Messrs. Otoniel Villamonte and Eduardo Freundt, hereinafter called the "council," parties of the first part; and Alvin H. Frank & Co., a corporation of the State of California, United States of America, hereinafter called "the Frank Co.," represented by its vice president, Mr. Robert Edmund Moody, party of the second part; have agreed to make a contract of issue of bonds, also to be known as a trust and fiscal agency agreement in the following terms:

1. The council declares that all the data and statements contained in the annexed document, designated by the letter A, called "Statistical information of the provincial council of Callao," are in accordance with the facts, that is to say, that the same are true and correct.

2. The Province, pursuant to ordinance adopted at the sessions of February 18 and March 11, approved by the Government of Peru, by supreme resolution of April 25 and in accordance with authorizing law No. 5801, which ordinance, resolution, and law appear in the appendix accompanying this instrument designated by the letter B, hereby issues bonds, to the amount of \$1,500,000, American gold coin, of the same weight and fineness as those which now circulate in the United States of America. This total sum shall be represented by bonds of \$1,000 or \$55, pursuant to the indication made at the proper time by the Frank Co. Bonds of the denominations of \$1,000 or \$500 at any time outstanding with all unmatured coupons attached may be exchanged for an equal aggregate principal amount of bonds of the other denominations, with all unmatured coupons attached, upon payment of \$1 for each new bond issued, to cover expenses, being the said payment of \$1 on account and charge of the asking for the exchange. The Province will pay the principal of the bonds, the premium thereon hereinafter mentioned, and the corresponding interest in American gold dollar coins of the same purity, weight, and fineness as those which now circulate in the United States in the manner and conditions hereinafter stipulated; and said bonds, premium, and coupons, that is to say, the principal, premium, and interest, shall be paid in time of war as well as in time of peace, irrespective of the residence or nationality of the holder of said bonds and coupons.

3. The bonds shall be payable to bearer, shall bear interest at 7½ per cent per annum, from January 1, 1927, payable at the end of each semester, each bond bearing the necessary number of coupons and the amount of each coupon representing the amount of the corresponding interest. The bonds shall be numbered consecutively; shall bear the name: "Province of Callao, Peru, guaranteed and secured sinking fund 7½ per cent gold bonds"; and the bonds, as well as the coupons, shall be in the English language, substantially in accord-

ance with the forms attached hereto and constituting an integral part hereof. The bonds shall bear the facsimile signatures of the persons who are on the date of the execution hereof the two syndics of the council, and one seal of the council, and shall be signed in the city of New York by the consul general of the Republic in that city, who is hereby given the necessary power for that purpose, or by any other attorney in fact whom the council may designate. Each coupon shall bear the facsimile signature of the said two syndics. Each bond shall bear indorsed thereon the guarantee and obligation of the Republic, in the English language, substantially in the form attached to this minute, which guarantee and obligation shall bear the facsimile signature of the director general of finance in office on the date of this agreement, and the seal of the department of finance of the Republic, and shall furthermore be signed by the consul general of the Republic in New York, who is hereby given the necessary power for that purpose, or by any other attorney in fact whom the said director general of finance, in the name of the Republic, may designate. Each bond shall be authenticated by a certificate indorsed thereon signed by the trustee hereinafter mentioned setting forth that the bond is one of those described in this contract; and without such certificate no bond shall be valid or can be issued. Such certificate shall be conclusive evidence and the only evidence, that the bond has been authenticated, has been duly issued, and is entitled to the security set forth in this contract.

4. Interest shall be paid on January 1 and July 1 of each year, beginning July 1 of the present year, and payment shall be effected against the surrender of the corresponding coupons. Such payments shall be made by the fiscal agent hereinafter mentioned, at its office in the city of New York.

5. The bonds shall mature January 1, 1944, and those not then amortized shall be paid at par. The bonds shall be amortized half yearly on January 1 and July 1 of each year, the first half yearly amortization to take place on July 1 of the present year. The amortization shall be effected with the balance of the half yearly fund hereinafter referred to, after providing for the service of interest corresponding to the then current semester. Such amortization shall be effected by direct purchase in the market by the fiscal agent, who is hereby authorized to acquire bonds to be amortized at the then current market prices, making purchases from time to time in its discretion, and to pay therefor up to 107½ per cent of their face value, plus accrued interest to the date of purchase. Such interest shall be paid for account of interest and not for account of amortization. If it should not be possible to apply all of the available amortization money to the purchase of bonds during each semester before June 10 and December 10 of each year, the fiscal agent in New York shall hold a drawing within the following five days to determine by lot the bonds to be amortized. Such drawing shall be held in a manner usual in the city of New York as determined by the fiscal agent. The result of the drawing shall be set forth in a certificate to be prepared in quadruplicate, the fiscal agent retaining one copy, and remitting one to the trustee, another to the council and another to the Minister of Finance of Peru. The bonds drawn shall be paid on the following interest-payment date at the rate of 107½ per cent of their face value, plus interest to that date on interest account.

6. By advertisements published in English in a daily newspaper of general circulation twice within a period of eight days in the city of New York, designated by the fiscal agent (the first publication to be made not less than 10 days before the date fixed for payment), the holders of the bonds drawn shall be notified of the place where and day when the principal of the drawn bonds shall be paid; and said advertisements shall state the numbers of the bonds drawn. The bonds acquired in the market for amortization shall cease to bear interest from the date of their purchase, and all unamortized coupons thereto attached shall be canceled; bonds drawn for amortization shall cease to bear interest from the date designated for their amortization.

Coupons paid and bonds amortized shall be duly annulled by the trustee and shall be sent by it to the council together with unamortized coupons which shall also be annulled.

7. As security for the payment of the principal of the bonds, of the premium thereon, and of the interest, and as security for the other obligations set forth in this contract, the Province constitutes a first mortgage on the following real property belonging to it:

(a) General slaughterhouse of Callao with an area of 10,000 square yards, the first property record of which appears at folio 539 et seq. of the property registry, liber 5, in the registry of real property of Callao.

(b) Market of the city of Callao fronting on Lima Street, now Saenz Peña Avenue, with an area of 12,340 square meters, 15 square decimeters, occupying an entire block, the first property record of which appears on folio 587 of the property registry, liber 5, in the registry of real property of Callao.

(c) Two-story building situated at the corner of Teatro and Colon Streets, with numbers 19 to 35 on the former and numbers 27 to 33 on the latter, recorded on folio 263 of liber 3 of the registry of real property of Callao, its area being 2,178 square meters, 69 square decimeters.

(d) Real property used for the refuse and garbage department and municipal disinfecting station with four fronts, on Constitution, Ayacucho, Junin, and Manco Capac Streets, registered at folio 209 of liber 8 in the registry of real property of Callao, in which record it appears with an area of 4,752 square meters, 25 square decimeters but its real and actual area is even greater and such real area will be recorded by the council in the registry in accordance with the procedure provided by law.

(e) Real property on which the municipal theater is located, situated in the second lot of Teatro Street and having numbers 48, 50, and 52, and adjoining property Nos. 54 and 56 on the same street, which together with the theater form a single piece of real property, recorded at folio 97 of the property registry liber 6 of the registry of real property of Callao.

(f) Real property known as machinery house situated to the south of the customhouse of Callao, with an area of 15,006 square meters, recorded at folio 277 of the property registry, liber 13, of the registry of real property of Callao.

The mortgage so constituted is a first mortgage and is imposed on each piece of real estate for the full amount of the bond issue of \$1,500,000 with interest and premium, and to secure the other obligations of the Province hereunder, and includes in each piece of real property the area, building, free spaces, uses, customs, easements, and other rights thereto appertaining without reservation or limitation, and without the right to exclude therefrom at the time of foreclosure, anything whatever then existing, because of its having been placed or constructed thereon after the making of the present contract.

The Province expressly agrees that in case the general slaughterhouse, the market or the municipal theater should be transferred to another locality, the new buildings and pieces of real property where said municipal dependencies may be installed shall be mortgaged in the same manner as herein stipulated for the security of the bonds of this issue. It is also expressly agreed that in case the council should desire to exchange for other real property any of said parcels of real property, the slaughterhouse, market or municipal theater, the new properties taken in exchange shall have an estimated value equal to or greater than the parcels now mortgaged and given in exchange; and for such exchange it shall be necessary to have in the contract the consent and intervention of the trustee as representative of the bondholders, and the new parcel of real property so acquired by exchange shall be mortgaged as security for the bonds of this issue in the manner herein stipulated. For the purposes referred to, the Province shall deliver to the trustee a certificate signed by the two syndics of the council and approved by the manager of the depositary in Peru as hereinafter described, stating the true values of the properties proposed to be exchanged, and in such case, the trustee shall accept such certificates as sufficient proof of such values and ground for consent to the exchange without any obligation on its part to make investigations or to obtain any other appraisal. Upon so giving its consent to the contract of exchange the trustee is hereby authorized on behalf of the bondholders, to cancel the mortgage on the real property which shall cease to belong to the Province by virtue of the exchange.

Until the bonds of this issue shall be totally and completely canceled, the Province will keep all of said properties and buildings in repair, and will not enter into any contract nor do any act which will diminish or in any manner unfavorably affect the securities constituted by this contract.

Until the bonds of this issue shall be completely canceled, or provided for, and from the date of the execution of the present contract, the Province agrees to keep insured against fire and in insurance companies of good standing, the buildings constructed on the mortgaged premises for the full value thereof. In case of loss, the council shall immediately advise the trustee and the fiscal agent thereof and shall collect the insurance. The sum so collected shall be deposited in the hands of the depositary in Peru with the option to the council to have the same added to the amortization moneys for the current semester, or to apply it to the reconstruction of what has been destroyed, or to the acquisition of new

real properties. Until the Province shall exercise such option the amount referred to shall remain in the hands of such depository as additional security for the bonds. In case the council should elect to add said amount to the amortization moneys, such depository shall pay the amount referred to to the fiscal agent so that the latter may add the same to the then current sinking fund.

In case the council desires to invest the sums so collected in new construction, council shall file with the trustee and with the fiscal agent a certificate containing the corresponding project signed by the syndics of the council and approved by the manager of the depository in Peru which document shall contain an outline of the proposed new construction and be accompanied by drawings and plans signed by the architects and constructors. Such filing shall be sufficient to authorize the fiscal agent through depository in Peru to pay against vouchers approved by the syndics of the council all weekly accounts representing laborers' wages and material used to the extent of the sums so collected. On completion of the new building and on making the respective application for inscription in the registry of the properties, it shall be stated that the new building replaces the former and is hypothecated under the same terms and conditions as set forth in the present mortgage to the extent of \$1,500,000, with interest, premium, and other expenses. If the value of the new construction should be greater than the amount retained in possession of the depository in Peru derived from insurance, the excess shall be supplied directly by the council through the payment of the first weekly pay rolls for material and wages so that in any case the new construction will be completed and finished by means of the money derived from the insurance. In case the council desires to apply the sums so collected to the purchase of new properties, the council shall file with the trustee and with the fiscal agent a certificate containing the project of purchase signed by the syndics of the council and approved by the manager of the depository in Peru, and such filing shall be sufficient authority to authorize the fiscal agent through the depository in Peru to pay from the sums so collected the purchase price set forth in the corresponding contract, which shall constitute a mortgage on the property for the total of \$1,500,000, together with interest, premium, and other expenses on the same terms and conditions as the mortgage constituted by the present document, which said contract shall be recorded in the proper mortgage registry. Neither the trustee nor the fiscal agent nor the depository shall be responsible for the application of the sums so collected and paid out. The new property acquired by the council shall be purchased and acquired free of all other mortgages, censos, capellanias, and any other lien, act, or contract in limitation of ownership, so that the mortgage constituted as security for the said issue may be a first mortgage.

The Province agrees immediately to record this instrument in the proper mortgage registry and to send to the trustee in New York a certificate of the registrar, duly authenticated by a United States consul or vice consul, evidencing such record. Even before the receipt of such certificate, the trustee is hereby authorized to authenticate the bonds upon receiving from the manager of the depository in Peru, or from any other bank in Lima which the fiscal agent may designate, a cablegram advising it that said record has been made.

8. In addition to the mortgage guarantee referred to in the preceding clause, the Province grants a first lien on and pledges as security for the bonds of this issue, interest and premium thereon and its other obligations hereunder, all and every one of the dues, taxes, rights, and other revenues receivable by it, specifically set forth in the attached list designated by the letter C and called "Revenues of the Province given in pledge of the issue." Said pledge shall also apply not only to said revenues but also to such other revenues, taxes, or imposts of the Province as may be hereafter created until the total amount of all pledged revenues calculated upon the collections of the preceding calendar year shall be at least equivalent in Peruvian pounds at the then rate of exchange to \$350,000 in American gold per annum, such revenues, taxes, or imposts being covered by said pledge from the moment of their creation. In case thereafter the pledged revenues, taxes, and imposts shall in any calendar year fail to produce at least the equivalent in Peruvian pounds at the then rate of exchange of \$350,000 American gold per annum then said pledge shall also apply to all other revenues, taxes, or imposts of the Province thereafter created until the annual yield of the total pledged revenues shall again be at least equivalent in Peruvian pounds at the then rate of exchange to \$350,000 in American gold per annum. The council at the end of each year shall send a statement to the fiscal agent, showing the amounts of the pledged revenues collected during that year as well as the aggregate income and expenditures of the Province.

9. The Province declares that the issue to which the present instrument refers constitutes its first and principal debt and obligation, for which the properties and rights mentioned in clauses 7 and 8 are specifically encumbered, and that such properties and rights are not encumbered in favor of any debt, obligation, act or contract limiting ownership, inasmuch as its only debts of such nature consist of Lp. 48,000.00 more or less owing to the Banco del Peru y Londres, as balance of the loan of Lp. 100,000.00 and Lp. 7,000.00 more or less owing to the former Compañía Recaudadora de Impuestos as balance of the loan of Lp. 14,000.00; the Province agrees that said two debts will immediately be canceled with part of the proceeds of the sale of the bonds.

The Province covenants that while any bonds of the present issue remain outstanding, all and every one of the revenues given in pledge will continue in effect, and that it will make no change, modification, or alteration in any of said pledged revenues which might cause a reduction of the total amount of all pledged revenues calculated on the collections of the preceding calendar year below the equivalent in Peruvian pounds at the then rate of exchange of \$350,000 American gold per annum, and that it will not grant terms of periods of grace for the payment of the revenues, taxes, or imposts and other revenues given in pledge.

While any bonds of this issue remain outstanding and unprovided for, the Province shall not make any contract for advances or loans on account of the revenues given in pledge, nor any other agreement or contract which may imply a limitation of the free right it now has to collect and receive the said revenues, taxes, and imposts, in the manner and on the conditions to-day existing, under penalty of nullity and of having all unpaid bonds declared matured as provided in clause 15.

10. The Republic of Peru constitutes itself guarantor of and joint and several obligator with the Province and as such guarantees and jointly and severally obligates itself for the punctual payment of the interest and principal of the bonds and of the above-mentioned premium of 7½ per cent thereon in the manner agreed, and to that end it pledges its full faith and credit. In order that this guarantee and obligation shall appear on each bond, the Republic will cause the form of guarantee and obligation referred to in clause 3 to be indorsed and signed on each bond. The Republic further obligates itself to devote from its general revenues annually the sum of Lp. 24,000.00 in monthly payments of Lp. 2,000.00 each and to include this as an item in its general budget during the life of the issue, and until its complete cancellation, without prejudice to its general liability and obligation with respect to the total of the issue as guarantor and joint and several obligor. Such sum of Lp. 2,000.00 per month shall be deposited by the Republic monthly beginning June 1, 1927, and from and after that date the Republic shall on the 1st of each month deliver that amount to the depository in Peru for account of the fiscal agent, in order that the same may be used for the service of interest and amortization.

11. The Government of Peru which has charge of the collection and receipt of all the revenues of the Province pledged for the issue, and as to present revenues, specified in the appended list mentioned in clause 8, and which will take charge of the collection and receipt of any other revenues, taxes, or imposts of the Province hereafter created—to which the pledge referred to in clause 8 may apply—will deposit, as they are collected the entire proceeds of such revenues, taxes, and imposts during each month, beginning June 1 of the present year, with the depository in Peru, as representative of the fiscal agent in New York, until the sums so deposited during such month, shall amount to the sum of \$13,750 American gold, at the rate of exchange on New York current on the date of the last deposit. If in any month the sums so deposited do not aggregate the said amount then the deficiency shall be made up from the proceeds of such revenues, taxes, and imposts received during the months next succeeding. After the deposit in each month of the said amount and of any additional amounts necessary to make up the deficiencies in similar deposits for prior months, the revenues later collected by the government in each month shall remain at the disposal of the council. Said sum of \$13,750 American gold shall include what the Republic is obligated to pay for its own account in accordance with the preceding clause, but it is nevertheless specially agreed that without prejudice to the guaranty and joint and several obligations of the Republic and the obligation undertaken by it to pay Lp. 2,000.00 monthly in accordance with the preceding clause, all the revenues appertaining to the Province set forth in Appendix C, hereto and all revenues hereafter created to which the pledge referred to in clause 8 may apply are

encumbered and shall be available for payment to and deposit with the depository in Peru of the said total monthly sum of \$13,700; so that in any case said depository shall in each semester have received the sum of \$82,500 for the service of amortization and interest, without prejudice to the delivery upon payment for the bonds of a like amount to the fiscal agent in New York to be retained by it as a reserve and guarantee fund as hereinafter stipulated.

The amounts so deposited with the depository in Peru shall be remitted by the latter to the fiscal agent in New York at the end of each quarter in sufficient time to place the total amount required for the payment of the semiannual interest and amortization on July 1 and January 1 in the hands of the fiscal agent in New York at least 30 days prior to such dates—that is to say, the said quarterly remittances shall be in the hands of the fiscal agent in New York on March 1, June 1, September 1, and December 1 of each year. With respect to the moneys required for the service of the interest and sinking fund of the loan, the fiscal agent shall allow the Province on such moneys received by it in New York, interest at the rate of 2 per cent per annum from the date of receipt of such moneys up to 15 days before the semiannual coupon and sinking fund date for which such moneys shall have been remitted, the moneys after such 15 days to be free of interest in its hands as above. With respect to the moneys in the above mentioned reserve fund, it shall semi-annually allow the Province on such moneys held by it, interest at a rate of 1 per cent less than the average rate for the previous 6 months for 6 months' prime commercial paper offered in the city of New York. All sums lying with the fiscal agent may be treated by it as a general deposit. The fiscal agent shall be paid a sum equal to one-eighth of 1 per cent on all amounts disbursed by it for principal, premium, and interest. The fiscal agent shall also be entitled to prompt reimbursement, vouchers attached, for all expenditures reasonably made by it from time to time in connection with its functions as fiscal agent.

In case, by reason of variation in the rate of exchange, the amounts deposited with the depository in Peru should not be sufficient to permit that depository to place quarterly in the hands of the fiscal agent in New York, the sum of \$41,250, the amount lacking shall immediately be supplied by the Province or the Republic.

12. In case the Government of Peru or the Province should entrust a corporation with the collection of its revenues, they shall include in the respective contract a provision requiring such corporation to obligate itself to make, for account of the Government of Peru and of the Province, the deposits of money referred to in the preceding clause.

13. The funds received by the fiscal agent in New York in accordance with the provisions of the preceding clauses shall be applied by the latter on the proper dates to the payment of interest and to the amortization of bonds, either by purchase in the market or by drawings, as aforesaid.

The Republic of Peru as guarantor and joint and several obligor and the Province in its own right each reserves to itself the right to make special redemptions of the whole or part of the issue, on any interest payment date, at 107½ per cent and accrued interest, upon at least 45 days' written notice to the fiscal agent, and by depositing with the fiscal agent in New York at least 35 days before the proposed redemption date, the funds required for that purpose. If it should be proposed to redeem less than all of the bonds then outstanding, such notice shall state the amount of bonds to be redeemed, and the bonds so to be redeemed shall be determined by lot, drawings to be made as provided in clause 5. Notice of intention to redeem with the numbers of the bonds drawn, shall be given by publication as provided in clause 6, except that such publication shall be made three times prior to the redemption date, and the first publication shall be not less than 30 days before such date.

The fiscal agent is not obliged to make any advance or provision of funds for the service of interest and amortization or for its expenses incurred in its functions as fiscal agent, all of which shall be effected only with money previously delivered to it in accordance with the stipulations of the foregoing clauses.

14. From the proceeds of the sale of the bonds there shall be set aside in the first place the amount necessary to cancel the debts of the Province mentioned in clause 9.

Furthermore, from the same proceeds of the sale of the bonds there shall be deposited with the fiscal agent in New York the amount of \$82,500 American gold as a reserve and guaranty fund for the service of interest and

amortization. This fund shall always remain on deposit with the fiscal agent in New York and if it should at any time be reduced (because of the failure of the fiscal agent to receive from the Province or the Republic at the proper time the amount required for the service of amortization and interest, and because as a consequence thereof, the fiscal agent has used such guaranty and reserve fund to cover such services), there shall be deposited immediately with the fiscal agent the amount required to restore and cover said total of \$82,500 American gold, which full amount shall always and constantly remain on deposit with the fiscal agent and without prejudice to the continuance of the regular deposits for the service as indicated in clause 11.

Furthermore, from the proceeds of the sale of the bonds there shall be retained in the hands of the fiscal agent in New York an amount equal to the service of the loan due on the next succeeding June 1.

The balance of the proceeds of the sale of the bonds remaining after the setting aside of the amounts specified in this clause and after all other expenses shall have been paid, shall be applied by the council to the following works:

1. Increase of the water supply for the city of Callao.
2. Placing of water and drainage pipes in the serttes of Callao where none are at present.
3. Paving with asphalt concrete at least 50,000 square meters of street.
4. Construction of at least 30,000 square meters of hydraulic concrete sidewalks.
5. Construction of 200 more or less small houses for employees and laborers.
6. Acquisition of modern material for sprinkling and sweeping the city and collection of garbage.
7. Construction of a furnace for cremation of garbage with a minimum capacity of 30 tons.
8. Construction of a city hall and of other works of adornment and embellishment.

15. In case the Republic or the Province should fail to make punctual payment of interest and amortization on the dates stipulated or should fail in complying with any other obligation set forth in this contract, and if such failure or omission should continue for thirty days, the trustee may, if it deems proper, and upon written request of the holders of 25 per cent of the bonds outstanding shall declare all unpaid bonds matured, and by virtue of such declaration said bonds shall thereupon mature and become immediately payable at 107½ per cent of their face value with interest accrued to that date. In such case, the trustee may, if it considers advisable, enforce, in accordance with the laws of Peru, the mortgages and pledges constituted by this instrument, and the fiscal agent may, but is under no obligation to, appoint a company or depositary to collect the taxes, dues, rights, and other revenues pledged under article 8 hereof and administer them for the benefit of the holders of bonds issued hereunder, including the meeting of the costs of such collection and administration. On the written petition of bondholders representing at least 25 per cent of outstanding bonds, the trustee (or any other trustee appointed for that purpose as hereinafter provided in this clause) shall proceed in the manner stated, but only after having received, to its satisfaction, the amount required to cover its costs and expenses, including its own compensation, or after having received satisfactory security and indemnity therefor. In all cases referred to in this clause it is agreed that all expenses caused by such proceedings, including the compensation and expenses of the trustee, shall be for account of the Province and of the Republic.

Anything in this clause or elsewhere in this contract to the contrary notwithstanding, if in the opinion of the trustee it shall be necessary or desirable or requested in writing by the bondholders representing a majority of outstanding bonds, the Province and the trustee shall join in the execution of all instruments and agreements necessary to appoint any one or more individuals or corporations, approved by the trustee, to act hereunder, whether as co-trustee or co-trustees jointly with the trustee or as separate trustees hereunder. The individuals or corporations so appointed, upon acceptance thereof in writing, shall possess the rights and powers and be subject to the duties specified in such appointment for the term therein designated.

In the event of a distribution of funds applicable to the said bonds by the trustee after default, such funds shall be applied by the trustee: (a) to the payment of such proportion as may be chargeable to the said bonds, of the cost and expenses of any proceedings taken by the trustee, including reason-

able compensation of the trustee, its agents, representatives, and counsel, and all expenses, liabilities, or advances made or incurred by the trustee in connection therewith, and of all fees and expenses of the trustee and of the fiscal agent under this agreement, (b) to the payment of overdue interest on all said bonds then outstanding and unpaid interest on such overdue interest at the rate of  $7\frac{1}{2}$  per cent per annum and, (c) to a pro rata payment computed in United States gold dollars of principal on all outstanding bonds. Any partial payments of interest or principal shall be noted upon the coupons or bonds respectively and any balance remaining due and unpaid shall continue to be obligations of the Province and the Republic.

16. The trustee in its own name or by its nominee shall represent all the bondholders for all the purposes of the present contract and is empowered to enforce judicially or extrajudicially compliance with the stipulations of this instrument, but the trustee shall not be obliged to act as such representative nor will it incur liability by reason of its failure so to act.

17. The Central Union Trust Co. of New York is hereby appointed trustee and the firm of J. & W. Seligman & Co. is hereby appointed fiscal agent, each with the powers, rights, and duties set forth in this instrument and the instrument of acceptance executed by them, it being understood that such appointments shall take effect from the moment when said Trust Co. and said firm accept said offices. Such acceptances may be by separate document to be executed in New York, which will be sent to the council to be attached to and made a part hereof. Said acceptances shall be executed substantially in the form attached hereto designated as "Appendix D," and made a part hereof, and all the terms and provisions thereof shall be binding upon the parties hereto and upon the holders of the bonds at any time issued and outstanding with the same force and effect as if said acceptance Appendix D were fully set forth herein. The Lima branch of the Royal Bank of Canada is hereby appointed depositary in Peru. All the stipulations of the present contract relative to said trustee, to said fiscal agent, and to said depositary in Peru, respectively, shall be understood as applying to the corporation Central Union Trust Co. of New York and to the firm of J. & W. Seligman & Co. and to the Lima branch of the Royal Bank of Canada, and shall be considered to continue in force whatever be the modifications which said corporation or said firm or said Lima branch may undergo in personnel or legal structure. The fiscal agent may at any time and from time to time appoint a substitute depositary in Peru to assume the duties and functions hereunder of said Lima branch of the Royal Bank of Canada, such new depositary to be satisfactory to the Province. The depositary in Peru shall allow such interest on moneys of the Province on deposit with it as shall be agreed upon between it and the council.

18. Pending engraving and execution of the definitive bonds, the Province shall issue and the Republic shall guarantee and obligate itself on temporary bonds in English substantially in the same form as the definitive bonds, but only with one or two coupons. Neither said temporary bonds nor their coupons shall require any facsimile signatures engraved or printed or any seal, it being sufficient that the bonds and the guarantee and obligation endorsed thereon be signed by the consul general of Peru in New York in representation of the Province and of the Republic, respectively, and that the coupons bear the printed name of said official. Ample and sufficient power for this purpose is hereby granted to said consul general. Said temporary bonds shall be authenticated by the trustee in the same manner as the definitive bonds and may be issued in the denominations indicated by the Frank Co. The temporary bonds shall be exchanged for definitive bonds as soon as the latter are ready and upon making the exchange the temporary bonds shall be canceled by the trustee in the presence of the consul general of Peru in New York or a notary public of the State of New York. The definitive bonds shall be engraved in the form required by the New York Stock Exchange to permit their listing on that exchange, and shall be prepared as soon as possible and in any case before the 1st day of September of the present year. Upon being executed by the Province and by the Republic in the form aforesaid they shall be delivered to the trustee to be authenticated by the latter and exchanged for temporary bonds. The temporary bonds upon being authenticated by the trustee shall be delivered by the latter in accordance with the terms of the contract of purchase-sale of the bonds and such instructions as the council may give. It is expressly agreed that neither the trustee nor the fiscal agent, nor the purchasers of said bonds assume any obligation and that they shall not at any time or

in any manner be responsible for the application given by the council to the balance of the purchase price of the bonds delivered to it.

19. The principal, premium, and interest represented by the bonds and coupons of the issue shall be free in Peru from all kinds of imposts, taxes, and dues now existing or hereafter created whether local or national and whatever be their nature, without any reservation or exception.

20. The council shall be liable for the payment of all the costs of the present contract, the cost of recording mortgages, the cost of a notarial copy for the trustee, the judicial and administrative costs, the fees of the lawyers of the Frank Co., and the trustee in Lima and in the United States, the compensation of the trustee and of the fiscal agent, the printing of the temporary and engraving of the definitive bonds, cable expenses, insurance and postal remittances of the bonds, costs and fees for the listing of the bonds in New York, whether in the official exchange, or in the market in lists outside of the official exchange, costs of publication of advertisements and other costs for the payment of interest, drawings and amortization, and any other expenses until the present contract shall have been totally and definitely perfected and the bonds of the issue shall have been totally and definitely canceled or provided for.

21. In case of theft, loss, mutilation, or destruction of any bond or of its coupons, duplicates shall be issued in place thereof upon the receipt by the Republic, the Province, and the trustee of the usual proofs and guarantees in such cases and upon observing the usual procedure for that purpose.

22. The Province declares that the loan represented by the said bonds constitutes a direct debt and obligation of the Province independently of the aforesaid guarantees, and the Province hereby pledges its full faith and credit for the punctual payment of the principal, premium and interest of the said loan, and of all amounts relating to its service and for compliance with all and every one of the obligations set forth in this contract.

23. This contract is executed in the English and Spanish languages, but the English text shall govern in the interpretation of its terms. For the purpose of legally constituting and recording the mortgage herein referred to, a Spanish copy of this contract or so much of it as the parties may agree, or a separate mortgage instrument if preferred by the Province, shall be executed before a notary and placed on record at the expense of the Province.

24. The Province, the trustee and the fiscal agent and their respective successors, each in its discretion, may deem and treat the bearer of any bond or coupon as the absolute owner thereof, whether such bond or coupon shall be overdue or not, for the purpose of receiving payment thereof and for all other purposes whatsoever, and neither the Province, the trustee nor the fiscal agent nor their respective successors, nor any of them, shall be affected by any notice to the contrary.

Lima, April 25, 1927.

[SEAL.]

[SEAL.]

[SEAL.]

FCO. QUIROZ VEGA,  
*Director General of Finance.*  
EDUARDO FREUNDT,  
*In charge of disbursements.*  
O. VILLAMONTE,  
*In charge of revenues.*  
ALVIN H. FRANK & Co.  
By FRANCIS F. RANDOLPH,  
*Attorney in fact.*

AMERICAN CONSULAR SERVICE

REPUBLIC OF PERU,  
*City of Lima.*

I, George A. Makinson, consul of the United States of America, at Callao-Lima, Peru, duly commissioned and qualified, do hereby certify that F. Quiroz Vega, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, Director General de Hacienda (Director General of Finance), of Peru, and that Eduardo Freundt, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, Sindico de Gastos del Concejo Provincial del Callao (Sindyc of Expenses of the Provincial Council of Callao, Peru), and that O. Villamonte, whose true signature is subscribed and affixed to the

attached document was on April 25, 1927, the day of the date thereof, Sindico de Rentas del Concejo Provincial del Callao (Sindyc of Incomes of the Provincial Council of Callao, Peru), and that their respective signatures and seals of office are worthy of all due faith and credit.

In witness whereof I have hereunto set my hand and official seal of office, at Callao-Lima, Peru, aforesaid, this 27th day of April, 1927.

[SEAL.]

GEO. A. MAKINSON,

*Consul of the United States of America at Callao-Lima, Peru.*

Service No. 688. Fee \$2.

STATE OF NEW YORK,

*County of New York, ss:*

On this 17th day of May, 1927, before me came Francis F. Randolph to me known to be the individual described in a certain power of attorney executed in the City of Los Angeles, State of California, on the 7th day of March, 1927, by Alvin H. Frank & Co., and said Francis F. Randolph acknowledged that he executed the foregoing instrument on behalf of Alvin H. Frank & Co. pursuant to authority granted to him in said power of attorney.

CHARLES STEIGER.

*Notary Public Kings County, No. 562, Register No. 8670.*

Certificate filed in New York County, No. 1850, Register No. 8170A.  
Commisison expires March 30, 1928.

STATE OF NEW YORK,

*County of New York, ss:*

I, William T. Collins, clerk of the County of New York, and also clerk of the supreme court for the said county, being a court of record, do hereby certify, that Charles Steiger before or by whom the annexed instrument was signed was at the date thereof a notary public for the county of New York, duly appointed and sworn, and that full faith and credit are due to all his official acts as such notary public. And further, that I am well acquainted with the handwriting of such notary public and verily believe that the signature to the annexed instrument is genuine.

In testimony whereof I have hereunto set my hand and affixed the seal of the said court and county the 18th day of May, 1927.

[SEAL.]

WILLIAM T. COLLINS,  
*Clerk.*

PROVINCE OF CALLAO, PERU, GUARANTEED AND SECURED SINKING FUND 7½ PER CENT GOLD BONDS

[Form of bond]

Due January 1, 1944.

The Province of Callao (hereinafter called the Province) for value received promises to pay to the bearer of this bond on the 1st day of January, 1944, the sum of \$——— (\$———) in gold coin of the United States of America, of or equal to the standard of weight and fineness existing January 1, 1927, at the office of J. & W. Seligman & Co. (hereinafter called the fiscal agent), in the borough of Manhattan, city of New York, State of New York, and to pay interest thereon at the rate of 7½ per cent per annum, in said United States gold coin, semiannually, on the 1st day of January and July of each year, according to the tenor and effect of the coupons hereto attached, upon presentation and surrender thereof as they severally fall due.

Principal, premium, and interest shall be paid in times of war, as well as of peace, and irrespective of the residence or nationality of the holder, without deduction for any taxes now or at any time hereafter imposed, levied, or collected by the Republic of Peru, or by the Province of Callao, or by any taxing authority thereof or therein, and whether such taxes be on this bond or upon the income derived therefrom or upon the holder by reason of his ownership or possession thereof.

This bond is one of an authorized issue of bonds for an aggregate principal amount of \$1,500,000 issued by the Province under authority (a) of a provincial resolution passed by the council of the Province on February 18 and March 11,

1927; (b) of a supreme resolution dated April 25, 1927; and (c) of law No. 5801 enacted by the Peruvian congress, and under and in pursuance of a trust and fiscal agency agreement dated April 25, 1927, between the Province, the Republic of Peru, and Alvin H. Frank & Co., and accepted by the Central Union Trust Co. of New York, as trustee, and by J. & W. Seligman & Co., of New York, as fiscal agent, by instrument dated April 25, 1927; and secured by a first mortgage upon the properties of the Province in the city of Callao and by a first lien and charge upon certain revenues of the Province as specified in said trust and fiscal agency agreement. For a statement of the nature and extent of the security, the rights of the holders of the bonds and coupons issued pursuant thereto, and of the trustee and fiscal agent with reference to such security, and the terms and conditions upon which said bonds are issued and secured, reference is hereby made to said trust and fiscal agency agreement and said instrument of acceptance thereof, to all of the terms and provisions of which the holder hereof consents by acceptance hereof.

The Province declares this bond to be its direct liability and obligation; and, for the prompt payment of this bond, with interest, in accordance with its terms and of the coupons attached thereto, the full faith and credit of the Province are hereby irrevocably pledged, irrespective of any security therefor.

The Province has agreed in and by said trust and fiscal agency agreement, and as therein more fully set forth, that there shall be remitted to the fiscal agent for service of the bonds during each six months the sum of \$82,500 for interest and sinking fund, and that any part of such amount in excess of the amount required for interest shall be used for the purchase of bonds at current market prices not exceeding 107½ per cent and accrued interest, or for redemption of bonds by lot at said price.

This bond is subject to redemption on any interest payment date, either through the sinking fund or otherwise, at 107½ per cent of the par value thereof, and accrued interest, upon publication of notice of redemption in a daily newspaper of general circulation printed in the English language and published in the borough of Manhattan, city and State of New York. Such notice shall be published, in case of redemption through the sinking fund, twice in a period of 8 days, the first publication to be not later than 10 days prior to the date of redemption and in case of redemption other than through the sinking fund, three times, the first publication to be not later than 30 days prior to the date of redemption; all in accordance with the provisions of the trust and fiscal agency agreement above mentioned.

In the event that default shall happen the principal of the bonds may be declared due and payable in the manner and subject to the conditions provided in said agreement.

It is hereby certified, recited, and declared by the Province that all acts, conditions, and things required to be done, to happen, or to exist prior to the issuance of this bond, have been done, have happened, and exist in due and strict compliance with the laws and constitution of the Republic of Peru and of the Province of Callao.

This bond shall pass by delivery, and payment thereof to bearer shall fully discharge the Province in respect of the principal and interest therein mentioned.

This bond shall not be valid until it shall have been authenticated by the signature of the trustee to the certificate hereon endorsed.

In witness whereof, the Province of Callao has caused this bond to be engraved with the facsimile signature of two of its syndics, and to be signed by the consul general of the Republic in the city of New York duly authorized for that purpose, and the interest coupons bearing the engraved facsimile signatures of said two syndics to be hereunto affixed.

Dated January 1, 1927.

[SEAL.]

PROVINCE OF CALLAO,

By \_\_\_\_\_,

*Consul General of the Republic of Peru in the City of  
New York, duly authorized representative of said Province.*

[Trustee's certificate]

This bond is one of the bonds described in the trust and fiscal agency agreement herein referred to.

CENTRAL UNION TRUST CO. OF NEW YORK, *Trustee.*

By \_\_\_\_\_.

## [Form of coupon]

On the \_\_\_\_\_ day of \_\_\_\_\_, 19—, unless the bond hereinafter mentioned shall have been called for previous redemption and payment thereof duly provided for, the Province of Callao will pay to the bearer of this coupon at the office of J. & W. Seligman & Co. (fiscal agent), in the borough of Manhattan, city and State of New York, the sum of \$37.50 in gold coin of the United States of America of or equal to the standard of weight and fineness existing January 1, 1927, without deduction for Peruvian taxes as specified in the bond hereinafter mentioned, being six months' interest then due on "Province of Callao, Peru, guaranteed and secured sinking fund 7½ per cent gold bond" No. \_\_\_\_\_,

\_\_\_\_\_,  
 \_\_\_\_\_,  
*Syndica of the Provincial Council.*

## [Form of guarantee]

The Republic of Peru hereby guarantees, and jointly and severally with the Province of Callao obligates itself for the punctual payment of principal, premium, and interest of this bond on the dates when they respectively fall due, and the punctual compliance by the Province of Callao with all and every one of the obligations set forth in this bond; and to that end it pledges the full faith and credit of the Republic.

In witness whereof, the Republic has caused this guarantee to be engraved with the facsimile signature of its present Director General of Finance; to be sealed with the seal of its ministry of finance; and to be signed in its name by the consul general of Peru in New York, the 1st day of January, 1927.  
 Lima, April 25 of 1927.

[SEAL.]

FCO. QUIROZ VEGA,  
*Director General of Finance.*

[SEAL.]

EDUARDO FREUNDT,  
*Syndic in Charge of Disbursements.*

[SEAL.]

O. VILLAMONTE,  
*Syndic in Charge of Revenues.*

## AMERICAN CONSULAR SERVICE

REPUBLIC OF PERU,  
*City of Lima.*

I, George A. Makinson, consul of the United States of America, at Callao-Lima, Peru, duly commissioned and qualified, do hereby certify that F. Quiroz Vega, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, Director General of Finance, of Peru, and that Eduardo Freundt, whose true signature is subscribed and affixed to the attached document was, on April 25, 1927, the day of the date thereof, syndic of expenses of the provincial council of Callao, Peru), and that O. Villamonte, whose true signature is subscribed and affixed to the attached document was, on April 25, 1927, the day of the date thereof, Syndic of incomes of the Provincial council of Callao, Peru), and that their respective signatures and seals of office are worthy of all due faith and credit.

In witness whereof I have hereunto set my hand and official seal of office at Callao-Lima, Peru, aforesaid, this 27th day of April, 1927.

[SEAL.]

GEO. A. MAKINSON,  
*Consul of the United States of America at  
 Callao-Lima, Peru.*

Service No. 674. Fee, \$2.

ISSUE OF BONDS OF THE PROVINCIAL COUNCIL OF CALLAO FOR  
 \$1,500,000 UNITED STATES GOLD COIN

## APPENDIX A

## STATISTICAL INFORMATION OF THE PROVINCIAL COUNCIL OF CALLAO

The council declares that the population of the Province of Callao in accordance with the results of the latest census and the present data of the section of statistics of the department of public development of the Republic, is estimated at more than 60,000 inhabitants.

The council likewise declares that the amount of the revenues received from all sources and which appears in its annual budgets has been as follows:

Year:	
1921	Lp.53, 318. 3. 03
1922	58, 695. 5. 41
1923	63, 164. 0. 04
1924	68, 130. 0. 02
1925	74, 464. 2. 22
1926	86, 104. 9. 40

The council likewise declares that the calculation made of its revenue for the year 1927, is Lp.84,027.3.59 including the amount of Lp.24,000.0 which the Government of Peru will pay to assist the council in the service of amortization and interest of the bonds, gives a minimum total of Lp.108,027.3.59.

Lima, April 25, 1927.

FCO. QUIREZ VEGA,  
*Director General of Finance.*  
 EDUARDO FREUNDT,  
*In Charge of Disbursements.*  
 O. VILLAMONTE,  
*In Charge of Revenues.*

[SEAL.]

AMERICAN CONSULAR SERVICE

REPUBLIC OF PERU,  
*City of Lima.*

I, George A. Makinson, consul of the United States of America, in and for the district of Callao-Lima, Peru, duly commissioned and qualified, do hereby certify that F. Quiroz Vega, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, Director General of the Ministry of Finance of Peru, and that Eduardo Freundt, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, syndic of expenses of the provincial council of Callao, Peru, and that O. Villamonte, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, syndic of incomes of the provincial council of Callao, Peru, and that their respective signatures and seals of office as such are worthy of all due faith and credit.

In witness whereof I have hereunto set my hand and official seal of office, at Callao-Lima, Peru, aforesaid, this 27th day of April, 1927.

GEO. A. MAKINSON.

*Consul of the United States of America at Callao-Lima, Peru.*

Serial No. 677. Fee, \$2.

ANNEX B

RESOLUTIONS OF THE COUNCIL, OF THE REPUBLIC OF PERU APPROVING AND AUTHORIZING THE CONTRACT FOR THE ISSUE OF BONDS AND THE PURCHASE SALE OF BONDS AND THE CORRESPONDING LAW AUTHORIZING SALE

Resolution of the council.--Sessions, of the 18th of February and the 11th of March of 1927.

The minute book of the sessions of the provincial council of Callao, for the year 1927, on page 29, reads as follows: "Session of Friday, the 18th of February, 1927, mayor, Dr. Carlos A. Roe presiding. In continuation the mayor said that the council would proceed to discuss the basis of a loan of \$1,500,000. He then proceeded to read the following report of the syndicate (here follows inserted in the act, the report of the syndicate and the plan of the contract which consists: Of a contract for a bond issue, called alike an agreement of trust and fiscal agency, composed of 24 paragraphs, in which the bond and coupon formula, material to the issue, forms an integral part in conjunction with the guarantee formula of the Peruvian Government in Appendix A giving a statistical report of the provincial council of Callao with information on the

population of the Province and its revenues since 1921; an Appendix B in which should be inserted, in the final contract, the ordinance approved by the council, the ordinance approved by the Government, and the law authorizing it; an Appendix C entitled "Revenues of the council given in pledge for the loan," in which all the revenues which the council collects under any title are included; an Appendix D, which contains the contract or document by virtue of which the Central Union Trust Co., of New York, and J. & W. Seligman of New York, respectively accept the office of trustee and fiscal agents, which contract or document contains 15 paragraphs marked by letters from A to N, inclusive; and a purchase-sale contract of bonds, to be subscribed by the firm of Alvin H. Frank & Co., of the State of California, United States of North America, containing 11 clauses.) After reading and discussing each one of these clauses of the contract in reference and commenting upon them, these were approved by a verbal vote in which the following took part; the mayor, Fernandez, Villamonte, Freundt, Arana, Ferraro, MacLean, Morante, Pollard, Razzo, Krasalja, and Tavolara; Messrs. Ego Aguirre and Castaneta reserved their vote on the grounds that they had not been able to study the matter owing to their recent election to the council. It was then a quarter past 9 p. m.

In the same record book of the sessions of the provincial council of Callao, corresponding to the present year of 1927, on page 84, there is an entry which reads: "Session of Friday, March 11, 1927: The Mayor, Sr. Dn. Carlos A. Roe, presiding, the list of changes and additions to changes which the syndicate had introduced in the proposed \$1,500,000 loan project, were read. Dr. del Mar considered in his opinion it would be convenient before approving the changes which had just been read that the syndicate should give some explanation of this matter in order that those councilors who had not had an opportunity to study the contract, should become acquainted with the reasons for the proposed changes. The mayor read an explanation of the motives which induced the syndicate to support the loan project. (Here follow in the minutes certain opinions of the councilors and the complete list of changes which introduced and inserted in the contract, given in the minutes of the session of February 18, 1927, leave the said contract and appendices in the same terms and conditions as signed by the syndics of the provincial council of Callao with the same date as that on which is signed this copy of the contents of the minutes of the session of the council). The mayor pointed out that it was necessary to authorize the syndics to draw up and sign the contracts in final form, instead of making them provisional, which would be done as soon as the supreme Government approved the contracts previously mentioned and promulgated the respective law authorizing them, also to obtain the corresponding acceptance of the contract, and authorizing opportunely, in conjunction with the Government, the Peruvian consul in New York, to sign the provisional bonds, and to issue likewise the respective mortgage deed and to receive the value from the sale of the bonds, in conformity with the agreement; and finally, in drawing up and signing the final contract to introduce the necessary and indispensable changes. This was passed unanimously.

#### LAW OF AUTHORIZATION NO. 5801 FROM ANNEX B

ARTICLE 1. The executive power is authorized to guarantee jointly and severally with the provincial council of Callao and obligate itself for the loan projected by the said council up to the amount of \$1,500,000. American gold.

ART. 2. The interest of the said loan shall not exceed 7½ per cent per annum and the rate of placing the loan shall not be less than 92½ per cent, to be amortized in 17 years, being represented by bonds, the amortization price of which shall not exceed 107½ per cent.

ART. 3. The said loan shall be guaranteed by a first mortgage on the real property of the provincial council of Callao and the pledge of all or part of its revenues existing or hereafter created; and in this case in order that the pledge may be legally constituted, the legal precept shall not be necessary that the pledge be and remain in possession of the creditor. The executive power is authorized to obligate itself to pay monthly from the general revenues of the State, the sum of Lp. 2,000.00 on account of the service of amortization and interest until the cancellation of the loan, for which purpose the corresponding annual item of Lp. 24,000.00 shall be included in the general budget of the Republic.

ART. 4. The executive power is fully empowered to designate the official to represent it in the respective contract with the provincial council of Callao and to agree and stipulate with the lenders as to all the terms, conditions, and details of the said loan and of all contracts and acts concerning the same, including its form, conditions, manner, procedure, and dates of payment, interest, and amortization ordinary and extraordinary and, in general, all other points relating to the loan contract; and to approve and agree upon the application to be given by the provincial council of Callao to the said loan, authorizing the latter to apply the funds for the carrying out of the proposed public works in accordance with the plans and estimates which will be drawn up in the Ministry of Fomento, and which shall be charged against the special account of the municipality of Callao.

ART. 5. The loan, the bonds and coupons and all contracts and acts concerning the same shall be free of all kinds of imposts, taxes, and dues now existing or which may be created.

Let this be communicated to the executive power for its necessary compliance. Given in the Hall of Congress in Lima on the 11th day of April in the year 1927. E. de la Piedra, president of the senate; Jesus M. Salazar, president of the chamber of deputies; M. D. Gonzalez, secretary to the senate; N. Perez Velasquez, secretary of the chamber of deputies. Accordingly let this be printed, published, circulated and duly executed. Government Palace, Lima, on the 13th day of April, in the year 1927.

A. B. LEGUIA,  
M. G. MASIAS.

SUPREME RESOLUTION OF APPROVAL

LIMA, April 25, 1927.

In view of the contracts approved by the provincial council of Callao for the execution of law No. 5801, between the Republic, represented by the Director General of Finance, Dr. Francisco Quiroz Vega; the Province of Callao, represented by its provincial council, and the latter by its syndics, Messrs. Otoniel Villamonte and Eduardo Freundt; and Alvin H. Frank & Co., of the State of California, in the United States of North America, represented by its vice president, Mr. Robert Edmund Moody; One for an issue of bonds for \$1,500,000, American gold, containing 24 paragraphs in duplicate in English and Spanish, and the other for the purchase-sale of bonds, consisting of 11 paragraphs also in duplicate, English and Spanish, for each part.

These contracts being in conformity with the requirements of law No. 5801:

It is resolved the above-mentioned contracts are approved, and especially the joint and several guarantee of the Republic in favor of the Province of Callao and the monthly payment of £2,000 Peruvian (Lp. 2,000.000), which will be obligatory as long as this issue is in force and until its total cancellation.

The director general of finance is authorized to sign these contracts in the name of the Republic and to carry out all other necessary acts; and the Peruvian consul in New York is also authorized to sign the bonds and coupons in the name of the Provincial Council of Callao and of the Republic.

Let this be published and registered. Seal of the President of the Republic.

MASIAS.

Lima, April 25, 1927.

FCO. QUIROZ VEGA,  
*Director General of Finance.*  
EDUARDO FREUNDT,  
*In Charge of Disbursements.*  
O. VILLAMONTE,  
*In Charge of Revenues.*

AMERICAN CONSULAR SERVICE

REPUBLIC OF PERU, *City of Lima.*

I, George A. Makinson, consul of the United States of America, in and for the District of Callao-Lima, Peru, duly commissioned and qualified, do hereby certify that F. Quiroz Vega, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, director general of the ministry of finance, of Peru, and that Eduardo Freundt,

whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, syndyc of expenses of the provincial council of Callao, Peru, and that O. Villamonte, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, syndyc of incomes of the provincial council of Callao, Peru, and that their respective signatures and seals of office as such are worthy of all due faith and credit:

In witness whereof I have hereunto set my hand and official seal of office, at Callao-Lima, Peru, aforesaid, this 27th day of April, 1927.

[SEAL.]

GEO. A. MAKINSON,

*Consul of the United States of America at Callao-Lima, Peru.*

Serial No. 681. Fee \$2.

#### APPENDIX C.—REVENUES OF THE PROVINCE GIVEN IN PLEDGE OF THE ISSUE

Water, supplied to ships in the bay, less 10 per cent; water, domestic supply and meters; water, for drainage; public lighting and garbage collecting; rents of buildings and theater; ambulant sellers; gasoline stations; billiards and dog collars; pawnshops; slaughterhouse; electric railway; peace courts; goodwill of the market place; kiosk licenses; ballast, less 10 per cent; licenses, less 10 per cent; railway lines and sidings; market place; alcohol transit tax; fines; occupation of public ways, by cars; occupation of public ways, by materials; poles; weights and measures; advertising boards; shoe-cleaning stands; pavements and sidewalks; temporary huts; examination of pigs; wheel-tax plates; wheel tax, examination and chauffeurs' titles; wheel tax, railways; ramada del aromito; excise on foodstuffs; retail liquor sales; drainage; fencing; shows, 5 per cent pertaining to council; unforseen revenue; interest; water supply to ships, after deducting 10 per cent; ballast, 10 per cent of proceeds; industrial licenses, 10 per cent of proceeds; wheel tax, 10 per cent of proceeds; pawnshops receipts; moving-picture films; unoccupied lands; gasoline; property in ruinous condition; tax on house rents.

The names appearing on this list are precisely those which have been given to the various dues, taxes, rights, and other revenues received by the council, according to the budget for the whole of the year 1926.

Lima, April 25, 1927.

[Seal of the Director General of Finance.]  
[Seal of the Syndic in Charge of Disbursements.]  
[Seal of the Syndic in Charge of Revenues.]

FCO. QUIROZ VEGA.  
EDUARDO FREUNDT.  
O. VILLAMONTE.

#### AMERICAN CONSULAR SERVICE

REPUBLIC OF PERU,  
*City of Lima.*

I, George A. Makinson, consul of the United States of America, in and for the District of Callao-Lima, Peru, duly commissioned and qualified, do hereby certify that F. Quiroz Vega, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, director general of the Ministry of Finance of Peru, and that Eduardo Freundt, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, syndyc of expenses of the provincial council of Callao, Peru, and that O. Villamonte, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, sindico de rentas del Concejo provincial del Callao, Peru, and that their respective signatures and seals of office as such are worthy of all due faith and credit.

In witness whereof I have hereunto set my hand and official seal of office at Callao-Lima, Peru, aforesaid, this 27th day of April, 1927.

[SEAL.]

GEO. A. MAKINSON,

*Consul of the United States of America at Callao-Lima, Peru.*

Serial No. 685. Fee, \$2.

## APPENDIX D.—ACCEPTANCE OF TRUSTEE AND FISCAL AGENT

Whereas by instrument executed in the city of Lima, Republic of Peru, on the 2th day of April, 1927, by and between the Republic of Peru, the Province of Callao, Peru, and Alvin H. Frank & Co., the said Province agreed to make a bond issue of \$1,500,000 and appointed the undersigned corporation, Central Union Trust Co. of New York, as trustee, and the undersigned firm of J. & W. Seligman & Co. as fiscal agent of the said bond issue.

The said trustee and the said fiscal agent, each for itself and its successors, hereby accepts the trusts and assumes the duties imposed upon them respectively by the said agreement but only on the following terms:

(a) As compensation for its services under the said agreement the trustee shall be entitled to receive a fee of \$1,550, payable \$1,125 forthwith and the balance of \$425 in 17 equal annual instalments of \$25 each on the 1st day of January in each year beginning 1928; in case the entire issue should be redeemed before the end of 17 years, any unpaid balance shall immediately become due and payable. In case of default by the Province in the service of the interest and sinking fund or otherwise under the said agreement, the trustee shall likewise be entitled to its expenses and a reasonable fee in connection with any action it may take as representative of the bondholders.

(b) The fiscal agent and the trustee shall be entitled to prompt reimbursement for expenses, including fees of counsel, reasonably incurred or actually disbursed under the said agreement.

(c) The trustee and the fiscal agent may become the owners of any of the bonds with the same rights as any bondholder.

(d) All interest allowed the Province by the fiscal agent shall be credited to the service of the loan. The fiscal agent shall once in every semester advise the Province of the amounts credited by it under this paragraph.

(e) Neither the trustee nor the fiscal agent shall be answerable for the default or misconduct of any agent, depository, or attorney appointed by them, or by either of them, to carry out any of the provisions of the said agreement, if such agent, depository, or attorney shall be a bank or bankers and shall have been selected with reasonable care, nor in any respect except for the failure to exercise good faith.

(f) Neither the trustee nor the fiscal agent shall be under any obligation to take any action toward the execution and enforcement of any of the provisions of the said agreement, which, in their opinion, will be likely to involve them in expense or liability, unless some one or more of the holders of the bonds shall, as often as required by the trustee or by the fiscal agent respectively, furnish them security and indemnity satisfactory to them against such expense or liability.

(g) Neither the trustee nor the fiscal agent shall incur liability to any one in acting upon or in accordance with any notice, request, opinion, consent, certificate, bond, telegram, cablegram, radiogram, or other instrument or paper believed by either of them to be genuine and to have been signed, sent, or presented by the proper person, and to have been duly authorized.

(h) Neither the trustee nor the fiscal agent shall be responsible for the validity of said agreement or of any bonds issued pursuant thereto, or for the validity or efficiency of the security provided for in said agreement. All representations and recitals contained in said agreement and in the bonds and coupons shall be deemed to be made by the Province. The trustee and the fiscal agent may advise with legal counsel in Peru and in the United States of America and shall be fully protected in any action taken or suffered to be taken by them on the advice of any such counsel.

(i) The trustee shall not be under any duty at any time to record said agreement or any mortgage or additional agreement supplemental thereto, or to give any direction therefor, or to give any notice to any one of the existence thereof, it being expressly understood and agreed that all liability and responsibility in this regard has been by the terms of said agreement expressly assumed by the Province.

(j) The trustee shall not be under any duty, obligation, or responsibility to see to the insurance of any of the properties referred to in said agreement and mortgaged by the Province as security for the bonds, or to effect or maintain any such insurance.

(k) The trustee and the fiscal agent or either of them may resign and be discharged from their duties hereunder by giving to the Province 60 days' notice in writing of such resignation and to the holders of bonds notice by publication once in each week for three successive weeks in two daily newspapers of general circulation, published in the Borough of Manhattan, City of New York, United States of America, the first publication to be at least 50 days prior to the effective date of said resignation. In case the trustee or the fiscal agent or any successor, by reason of resignation or for any other reason, shall cease to act as such, a successor shall be appointed by the Province. Any such successor trustee shall always be a bank or trust company having its principal office in the borough of Manhattan, city of New York, and having a capital of at least \$2,000,000. Any such successor fiscal agent shall be a banking firm, bank, or trust company approved by the retiring fiscal agent without responsibility.

(l) All notices from the trustee or the fiscal agent to the Province in connection with said agreement and this instrument may be given at their option by written communication or by cable delivered at the office of the consul general of Peru in the city of New York, or addressed to the provincial council of Callao, Callao, Peru.

(ll) All such notices to the Republic may be given by written communication or by cable delivered at the office of the consul general of Peru in the city of New York, or addressed to the Minister of Finance of the Republic of Peru, Lima, Peru.

(m) All notices from the Province or the Republic to the trustee may similarly be given delivered at the principal office of Central Union Trust Co. of New York, 80 Broadway, New York.

(n) All such notices to the fiscal agent may similarly be given delivered at the office of J. & W. Seligman & Co., 54 Wall Street, New York.

Lima, April 25, 1927.

[Seal of the Director General of Finance.] FCO. QUIROZ VEGA.

[Seal of the syndic in charge of disbursements.] EDUARDO FREUNDT.

[Seal of the syndic in charge of revenues.] O. VILLAMONTE.

J. & W. SELIGMAN & CO.

CENTRAL UNION TRUST CO. OF NEW YORK,

By F. WOLFE,

*Assistant Vice President.*

Attest:

[SEAL.]

*J, Assistant Secretary.*

AMERICAN CONSULAR SERVICE

REPUBLIC OF PERU,  
*City of Lima:*

I, George A. Makinson, consul of the United States of America, in and for the District of Callao-Lima, Peru, duly commissioned and qualified, do hereby certify that F. Quiroz Vega, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, Director General of the Ministry of Finance, of Peru, and that Eduardo Freundt, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, syndic of expenses of the provincial council of Callao, Peru, and that O. Villamonte, whose true signature is subscribed and affixed to the attached document, was on April 25, 1927, the day of the date thereof, syndic of incomes of the provisional council of Callao, Peru, and that their respective signatures and seals of office as such are worthy of all due faith and credit.

In witness whereof I have hereunto set my hand and official seal of office, at Callao-Lima, Peru, aforesaid, this 27th day of April, 1927.

[SEAL.]

GEORGE A. MAKINSON,

*Consul of the United States of America at Callao-Lima, Peru.*

Serial No. 689. Fee \$2.

STATE OF NEW YORK,  
County of New York, ss:

On the 18th day of May in the year 1927 before me personally came F. Wolfe to me known, who, being by me duly sworn, did depose and say that he resides in Merrick, Long Island, N. Y.; that he is an assistant vice president of Central Union Trust Co. of New York, the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of trustees of said corporation, and that he signed his name thereto by like order.

[SEAL.]

M. A. BORGES,  
Notary Public No. 277, New York County.

My commission expires March 30, 1929.

STATE OF NEW YORK,  
County of New York, ss:

On this 18th day of May, 1927, before me personally came Francis F. Randolph, to me known and known to me to be one of the members of the firm of J. & W. Seligman & Co. described in and who executed the foregoing instrument and he thereupon acknowledged to me that he executed the same as and for the act and deed of said firm.

[SEAL.]

M. A. BORGES,  
Notary Public No. 277, New York County.

My commission expires March 30, 1929.

STATE OF NEW YORK,  
County of New York, ss:

I, William T. Collins, clerk of the county of New York, and also clerk of the supreme court for the said county, being a court of record, do hereby certify that, M. A. Borges before or by whom the annexed instrument was signed was at the date thereof a notary public for the county of New York, duly appointed and sworn, and that full faith and credit are due to all of his official acts as such notary public. And further, that I am well acquainted with the handwriting of such notary public and verily believe that the signature to the annexed instrument is genuine.

In testimony whereof I have hereunto set my hand and affixed the seal of the said court and county the 18th day of May, 1927.

[SEAL.]

WILLIAM T. COLLINS.

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EXHIBIT No. 17

JANUARY 16, 1932.

MEMORANDUM—PROVINCE OF CALLAO GUARANTEED AND SECURED SINKING FUND  
7½ PER CENT GOLD BONDS OF 1944

This business was brought to J. & W. Seligman & Co., by Hunter, Dulin & Co., investment bankers of the city of San Francisco, to whom the business was brought by Alvin H. Frank & Co., investment bankers of Los Angeles. Alvin H. Frank & Co., in turn, negotiated the business in Peru through a Mr. George A. Helfert, an American having business in Peru, to whom a commission of one-half per cent on the principal amount of the loan was promised. As the arrangements for the commission were made by Alvin H. Frank & Co., all documentary evidence in connection therewith would be in their files.

We attach hereto copies of the following:

- (a) Letter, dated July 19, 1927, from J. & W. Seligman & Co., to Alvin H. Frank & Co.
- (b) Letter, dated September 19, 1927, from Alvin H. Frank & Co., to J. & W. Seligman & Co.
- (c) Receipt of George A. Helfert, dated September 16, 1927.
- (d) Statement referred to in letter of September 19, 1927.
- (e) Night letter, dated September 19, 1927, from Alvin H. Frank & Co., to J. & W. Seligman & Co.
- (f) Letter, dated September 27, 1927, from Francis F. Randolph of J. & W. Seligman & Co., to R. E. Moody of Alvin H. Frank & Co.

The above letters indicate that certain sums were advanced to Mr. Helfert on account of his commission, and that the full amount finally paid him, including the advances, was \$7,500. Ralph M. Roberg, referred to in the statement (*d*) above, was a resident of San Francisco, Calif. The letter of September 19, 1927, refers to a "commission" payable to Doctor Gallagher. This was an erroneous description of the item. Doctor Gallagher is a Peruvian lawyer, who acted as counsel for the bankers. He was entitled to a fee for professional services, plus his disbursements, not a commission.

July 19, 1927.

Messrs. ALVIN H. FRANK & Co.,  
Los Angeles, Calif.  
(Attention Mr. Robert E. Moody.)

DEAR SIR: As you know, certain sums were paid by us upon your instructions to Mr. George A. Helfert on account of the \$7,500 commission due him for services rendered in connection with the Province of Callao guaranteed and secured 7½ per cent sinking fund gold bonds prior to the time when he was entitled to receive his commission. These sums were debited on our books to your account.

We have this day debited the Province of Callao original purchase group account \$2,000 with interest from May 23, the date of the advance payment, as of June 10, the date of our payment for the temporary bonds, and credited your account with a corresponding amount. We have also debited the original purchase group account \$2,000, the amount of our second advance, as of June 8, the date of that advance, and credited your account with that amount.

Very truly yours,

J. & W. SELIGMAN & Co.

ALVIN H. FRANK & Co.,  
MUNICIPAL AND CORPORATION BONDS,  
Los Angeles, September 19, 1927.

J. & W. SELIGMAN & Co.,  
New York City, N. Y.

GENTLEMEN: Inclosed please find receipt of G. A. Helfert in full for the \$7,500 commission due him for the origination of the \$1,500,000 Province of Callao, Peru, guaranteed and secured sinking fund 7½ per cent gold bonds.

We are inclosing herewith a statement showing exactly how this money has been paid out by us, all upon due authorization by G. A. Helfert and this final receipt covers his release to us of all claims in the connection.

We would appreciate your forwarding us a check to cover these payments made by us at your early convenience.

We wired you to-day quoting week-end letter from Gallagher regarding his commission, as per inclosed copy, and expect to have instructions from you as to just how to handle this matter over the wire to-morrow.

Trusting that ere this letter reaches you these matters will have been adjusted to the point where this account can be finally closed, believe us to be

Faithfully yours,

R. E. MOODY, *Vice President.*

SAN FRANCISCO, September 16, 1927.

I hereby acknowledge receipt from Alvin H. Frank & Co. of the sum of \$1,409.16, being the balance of all sums due me for commission or otherwise in connection with the recent issue of Province of Callao, Peru, guaranteed and secured sinking fund 7½ per cent gold bonds.

In view of the said payment I hereby release Alvin H. Frank & Co. and all persons, firms, and corporations associated with Alvin H. Frank & Co. in making purchasing or selling the said bond issue, from all claims whatsoever in connection with said issue, whether by me, or by persons claiming through me or under me.

GEORGE A. HELFERT.

1927		For month ending Sept. 15, 1927
May 13.....	G. A. Helfert debit memo No. 1 for cables.....	\$30.86
May 24.....	G. A. Helfert debit memo No. 2 for expenses Callao loan contract.....	80.88
May 27.....	Draft from Pajaro Valley National Bank, account G. A. Helfert.....	202.58
June 3.....	Charge by J. & W. Seligman & Co. for draft, account G. A. Helfert.....	2,000.00
Do.....	Payment to Bank of California, account G. A. Helfert.....	1,000.00
June 18.....	Charge by J. & W. Seligman & Co. for draft, account G. A. Helfert.....	2,000.00
Sept. 15.....	Paid to G. A. Helfert for commission.....	1,409.16
Do.....	Paid to Ralph M. Roberg for commission, account G. A. Helfert.....	1,000.00
		<hr/> 7,611.74
	Balance due us.....	111.74
		<hr/> 7,500.00
Do.....	Debit.....	7,611.74

[Western Union night letter]

ALVIN H. FRANK & Co.,  
Los Angeles, Calif., September 9, 1927.

J. & W. SELIGMAN & Co.,  
New York City, N. Y.:

We are to-day in receipt of following week-end cable letter from Gallagher. "Very disappointed about discussions regarding fee. Not accustomed discuss with clients consequently admit \$2,000. Total amount expenses paid personally are 50 Peruvian pounds, typewriters, Spanish, and English, plus 118 Peruvian pounds, other expenses according my letters to Mignard, June 21, including vouchers. Please cable authorizing me draw against Frank per equivalent 168 Peruvian pounds, total expenses plus import my fees, but having received 1,000, you will determine balance." Will you kindly wire Gallagher direct with instructions as to just what to do advising us action taken in matter Helfert final receipt mailed you to-day?

ALVIN H. FRANK & Co.

SEPTEMBER 27, 1927.

R. E. MOODY,  
Vice President Alvin H. Frank & Co.

DEAR MR. MOODY: I returned yesterday from my vacation and found your letter of September 19, relating to the Helfert commission.

In accordance with the account and discharge, I inclose herewith check to order of Alvin H. Frank & Co. for \$3,500, making a total of \$7,500 paid through your company to Mr. Helfert. This commission has been charged to the original purchase account in the purchase of \$1,500,000 Province of Callao, Peru, guaranteed and secured sinking fund 7½ per cent gold bonds.

I trust that in accordance with the exchange of telegrams you are proceeding with the settlement of the Gallagher fee and expenses, and that we will hear from you in due course as to the exact amount.

With best regards, faithfully yours.

FRANCIS F. RANDOLPH.

EXHIBIT No. 18

JANUARY 16, 1932.

MEMORANDUM—STATE MORTGAGE BANK OF YUGOSLAVIA 7 PER CENT SECURED SINKING FUND GOLD BONDS OF 1937

This business was brought to J. & W. Seligman & Co. by Seligman Bros. (Ltd.), of London, to whom the business was brought by a promoter, Mr. Marc Wilenkin, of London. It was agreed that Mr. Wilenkin was to receive one-half of 1 per cent of the principal amount of the loan for bringing the business. Mr. Henry C. Breck stated in his testimony before the Finance Committee of

the Senate (p. 916 of the transcript) that the commission in this business was paid to Mr. Kagan. Mr. Kagan assisted in the negotiations for the loan, and Mr. Wilenkin shared with him one-half of his commission. Mr. Breck wishes his testimony on this point to be amended accordingly. As this business was brought to J. & W. Seligman & Co. by Seligman Bros. (Ltd.), all documentary evidence in connection with the arrangements with Mr. Wilenkin would be with Seligman Bros. (Ltd.). The payment to Wilenkin above referred to, which amounted to \$60,000, is evidenced by our having credited Seligman Bros. (Ltd.) on our books with that amount on May 11, 1927.

Attached hereto is copy of cablegram, dated May 11, 1927, from Seligman Bros. (Ltd.) to J. & W. Seligman & Co.

[Cablegram]

MAY 11, 1927.

FROM SELIGMAN BROS., London.  
SELIGSON, NEW YORK:

When do you expect to credit us with one-half of 1 per cent due to Wilenkin, enabling us to pay him.

EXHIBIT 10

CRAVATH, HENDERSON & DE GERSDORFF,  
*Washington, D. C., April 2, 1927.*

SIR: Our clients, Messrs. J. & W. Seligman & Co., contemplate the purchase from Credit Foncier du Royaume des Serbes Croates et Slovenes (State Mortgage Bank of Yugoslavia), an issue of \$12,000,000 secured 7 per cent sinking fund gold bonds, 1957, and before the consummation of the purchase of the bonds is informing the department of the proposed flotation of said issue in the American market so that the department may have the opportunity of saying that there is or is not an objection thereto.

The bonds will mature in 30 years, will bear interest at the rate of 7 per cent per annum, will be payable in New York City at the office of Messrs. J. & W. Seligman & Co., as fiscal agents, in gold coin of the United States, will be retrievable by a cumulative sinking fund calculated to retire the entire issue by maturity, and shall be redeemable on any interest date at their principal amount and accrued interest. The bonds are to be secured by the pledge of a principal amount of secured obligations equal to the principal amount of the bonds at the time outstanding.

Our clients are advised that the State mortgage bank wishes to raise these funds in order to make loans secured by mortgages on real estate, chiefly agricultural lands, and loans to cities, particularly a loan to the city of Belgrade for the purpose of improving its sanitation works, waterworks, electric works, and street-car system, and for improvement and construction of other public works.

We would appreciate such an expression on your part as you are disposed to give that the Department of State has no objection to the making of such loans.

Very truly yours,

CRAVATH, HENDERSON & DE GERSDORFF.

The SECRETARY OF STATE,  
*Washington, D. C.*

TESTIMONY OF GEORGE MURNANE, REPRESENTING LEE, HIGGINSON & CO., NEW YORK CITY

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Whom do you represent?

Mr. MURNANE. Lee, Higginson & Co.

The CHAIRMAN. How long have you been with that company?

Mr. MURNANE. I joined the firm in 1928, at the beginning of 1928, four years ago.

The CHAIRMAN. Senator Johnson, you may inquire.

Senator JOHNSON. You represent what firm?

Mr. MURNANE. Lee, Higginson & Co.

Senator JOHNSON. Have you got your list?

Mr. MURNANE. Yes, sir. There is a longhand memorandum summing it up. It is in two forms, Senator. The top one covers the issues we have originated, and underneath that, the issues in which we participated, originated by others; and there is a summary of the situation.

The CHAIRMAN. The lists will be put in the record at this point.

(The list of foreign issues originated and participated in by Lee, Higginson & Co., January 1, 1914, to December 31, 1931, is here printed in full, as follows:)

**\$5,000,000 CENTRAL BANK OF GERMAN STATE & PROVINCIAL BANKS (INC.)—  
FIRST MORTGAGE SECURED GOLD SINKING FUND BONDS, SERIES A, 6 PER CENT**

Dated August 1, 1927. Due August 1, 1952. Sinking fund sufficient to retire entire issue by maturity.

Interest February 1 and August 1. Principal and interest payable in United States gold coin at offices of Lee, Higginson & Co. in Boston, New York, and Chicago, without deduction for any German taxes present or future. Coupon bonds only in \$1,000 and \$500 denominations. Callable only for the sinking fund prior to August 1, 1937, and as a whole or in part on any interest date on or after August 1, 1937, upon three months' notice, at par and accrued interest.

Not callable prior to August 1, 1937, except for sinking fund.

Preussische Zentralgenossenschaftskasse, Berlin, trustee.

The following information has been summarized from the accompanying letter signed by the board of management and the chairman of the central bank and by Landrat a. D., Rudolph von Bitter, representing the guarantor banks.

*Business.*—Central Bank of German State & Provincial Banks (Inc.) was organized in 1923 by various State, provincial, and other banks owned by public bodies; one of its purposes is to simplify the raising of money for its members by issuing its own bonds and loaning the proceeds to them.

*Purpose of issue.*—The proceeds of these bonds will be loaned to 11 of the member banks, all of which are owned by State, provincial or other public bodies and will be used by them solely to acquire first mortgages on new residential and apartment house property at not in excess of 40 per cent of the value represented by the appraised value of the land and the cost of the building.

*Security.*—These bonds will be the direct obligation of the central bank secured by a pledge with the trustee in Germany of first mortgages described above payable in gold marks. The indenture will provide that the amount of mortgages so pledged and cash in the hands of the trustee, both taken at par of exchange, must never be less than the amount of bonds outstanding.

*Guaranties.*—In addition prompt payment of the bonds in gold dollars is guaranteed by each bank receiving any of the proceeds of this loan and in the proportion in which such proceeds are received. The engagements of each of such participating banks are in turn unconditionally guaranteed by the State, Province, or taxing authority by which such bank is owned.

The States, Provinces, and taxing authorities guaranteeing the respective obligations of the participating banks will be: The Rhine Province, and the Province of Westphalia (which together include the important Ruhr industrial territory), the State of Thuringia, the Province of Upper Silesia and 69 municipalities in Upper Silesia, the State of Hessen, the Province of Schleswig-Holstein, 500 municipalities and 28 districts in the State of Saxony, the district of Cassel, and the States of Oldenburg, Lippe-Detmold, and Brunswick.

The population of the districts thus responsible for the payment of these bonds exceeds 23,000,000 or about 37 per cent of the population of Germany.

*Sinking fund.*—The indenture will provide for an annual cumulative sinking fund, first payment in 1929, sufficient to retire all series A bonds at or before maturity.

We recommend these bonds for investment. Price on application.

One million five hundred thousand dollars of the above bonds have been purchased by Higginson & Co., London, for sale in Great Britain and on the continent of Europe. Bonds offered when, as and if issued and received by us and subject to approval of counsel. All legal matters passed upon for the bankers by Messrs. Linklaters & Paines, London, and by Dr. Friedrich Kempner, Berlin, as to matters of German law.

LEE, HIGGINSON & Co.

CENTRAL BANK OF GERMAN STATE & PROVINCIAL BANKS (INC.).

Berlin, July 23, 1927.

Messrs. LEE, HIGGINSON & Co.,

Boston, Mass., U. S. A.

DEAR SIR: With reference to the purchase by you of \$5,000,000 first mortgage secured gold sinking fund bonds, series A, 6 per cent of Central Bank of German State & Provincial Banks (Inc.) (Deutsche Landesbankenzentrale A. G.), we have pleasure in giving you the following information:

CENTRAL BANK OF GERMAN STATE & PROVINCIAL BANKS (INC.)

The Central Bank of German State & Provincial Banks (Inc.) (hereafter called the central bank) was formed in 1923 for the purpose of coordinating the activities and promoting the interests of a large number of German State banks, provincial banks, and other banks owned and controlled by public bodies (Öffentlich Rechtliche Kreditanstalten). The official character and the strength of these banks is shown by the fact that their bonds have always been legal investments for trustee funds in Germany.

One of the objects of the central bank is to simplify the raising of money for the benefit of its members by issuing its own bonds and lending the proceeds to them.

The present capital of the central bank is 1,000,000 reichsmarks fully paid. It is about to be increased by 4,000,000 reichsmarks of which 25 per cent will be paid in immediately. The shares which are transferable only with the approval of the board of directors, are held as to 40 per cent by the Preussische Zentralgenossenschaftskasse (a banking organization instituted and controlled by the State of Prussia) and as to 60 per cent by 35 member banks.

PURPOSE OF THE LOAN

The proceeds of the bonds will be distributed among the 11 banks mentioned below. These banks will apply their proportions of the proceeds solely in granting loans on first mortgages on new apartment-house and residential property for not exceeding 40 per cent of the cost of the building and of the appraised value of the ground. It is estimated that there will be constructed out of the proceeds of this loan housing accommodation for about 5,000 families. The maximum amount which may be lent on any single mortgage must not exceed 200,000 gold marks (\$50,000).

The raising of this loan and its purpose have been passed upon by the Federal Advisory Council of the German Republic.

SECURITY

These series A bonds will be a direct obligation of the central bank and will in addition, be secured by:

(a) The pledge of the first mortgages mentioned above which will be assigned to and deposited with the Preussische Zentralgenossenschaftskasse as trustee and held by it for the benefit of the bondholders. The trust indenture will provide that the principal amount due under such mortgages, together with any cash in the hands of the trustee, must never be less than the equivalent of the amount of the bonds outstanding.

Principal and interest on these mortgage loans will be payable in terms of gold marks (on the basis of 1 gold mark being the equivalent of 1/2790 kg.

of fine gold) and their annual service, including interest and sinking fund, will provide for the annual service on the bonds.

(b) The unconditional guaranty for the payment in gold dollars of principal, interest and sinking fund on these bonds by the 11 State, provincial, and other banks who participate in the loan, each bank being liable proportionately to its share in the proceeds of the loan.

The States, Provinces, or other taxing authorities owning and controlling these banks are respectively unconditionally liable for the engagements of these banks.

GUARANTORS

The 11 banks who jointly guarantee this loan, the States, Provinces, and other taxing authorities who are respectively liable for the guaranty of these banks, and the proportion of the loan which each bank guarantees are given below:

Name of guarantor banks	Name of State, Province or other authority liable for the guarantee of the banks	Proportion of loan guaranteed by each bank
		<i>Per cent</i>
Provincial Bank of the Rhine Province.....	Rhine Province.....	25
Provincial Bank of Westphalia.....	Province of Westphalia.....	15
State Bank of Thuringia.....	State of Thuringia.....	15
Provincial Bank of Upper Silesia.....	Province of Upper Silesia and 69 municipalities in Upper Silesia.....	10
State Bank of Hessen.....	State of Hessen.....	7.5
Provincial Bank of Schleswig-Holstein.....	Province of Schleswig-Holstein.....	7.5
Credit Bank of Saxon Municipalities.....	500 municipalities and 25 districts in State of Saxony all jointly and severally liable for debts of Credit Bank.....	7.5
State Bank of Brunswick.....	State of Brunswick.....	5
Credit Bank of Cassel.....	District (Regierungsbezirk) of Cassel.....	5
State Credit Bank of Oldenburg.....	State of Oldenburg.....	1.5
State Bank of Lippe.....	State of Lippe-Deimold.....	1

The above States, Provinces, districts, and municipalities who are thus indirect guarantors for the present loan have each authority, in the event of revenues from other sources not being adequate, to raise taxes within their respective areas for the purpose of meeting their obligations.

The aggregate population of the above-mentioned States, Provinces, districts, and municipalities is more than 23,000,000 or about 37 per cent of the total population of Germany.

MISCELLANEOUS PROVISIONS

These bonds are free of all present and future German taxes and will be redeemed at par by August 1, 1952, by means of an annual cumulative sinking fund which will commence in 1929 and will operate to retire series A bonds by drawings at par. The Central Bank reserves the right to surrender bonds to the trustee for cancellation in satisfaction of the whole or any part of the sinking fund payment, the bonds for this purpose being taken at their par value.

The Central Bank also reserves the right to redeem the bonds as a whole or in part on any interest date on or after August 1, 1937, at par and accrued interest upon giving not less than three months previous notice.

Very truly yours,

DEUTSCHE LANDESBANKENZENTRALE A. G.,  
 GLAESER, *Geheimerfinanzrat, Managing Directors.*  
 LEHMANN,  
 DR. FELIX BUSCH, *Staatssekretar z. D., Chairman.*  
 RUDOLF VON BITZER, *Landrat a. D.*  
*Managing Director, Verband Deutscher,  
 Öffentlicher,  
 Kreditanstalten B. V. Berlin.*

**\$2,000,000 BROWN COAL INDUSTRIAL CORPORATION "ZUKUNFT" (BRAUNKOHELEN-INDUSTRIE-AKTIENGESELLSCHAFT ZUKUNFT) SINKING FUND MORTGAGE GOLD BONDS, SERIES A 6½ PER CENT**

Dated April 1, 1928. Due April 1, 1953.

Sinking fund sufficient to redeem entire issue at or before maturity.

Interest April 1 and October 1. Principal and interest payable in United States Gold Coin at the offices of Lee, Higginson & Co., in Boston, New York, and Chicago, without deduction for any German taxes, present or future. Coupon bonds in \$1,000 and \$500 denominations. Callable for sinking fund on any interest date on 30 days' notice and otherwise than for sinking fund, on and after April 1, 1933, as a whole at any time or in part on any interest date on three months' notice, at par and accrued interest in each case.

Direction der Disconto-Gesellschaft, Berlin, trustee. The National Park Bank, of New York, authenticating agent.

**CAPITALIZATION (TO BE OUTSTANDING UPON COMPLETION OF PRESENT FINANCING)**

Funded debt: Sinking fund mortgage gold bonds, \$6,000,000 authorized, series A 6½ per cent (this issue), \$2,000,000. Capital stock: Preferred stock, \$243,950; common stock, \$3,570,000. The principal amount upon which annual charges under the Dawes plan were last assessed is \$656,000.

**CONTROL**

Brown Coal Industrial Corporation "Zukunft" is controlled by the Rhine-Westphalia Electric Power Corporation which operates one of the largest electric systems in Europe. The outstanding capital stock of the Rhine-Westphalia Electric Power Corporation at present quotations has an indicated market value of over \$60,000,000.

From their accompanying letter officials of the company further summarize as follows:

**BUSINESS**

Brown Coal Industrial Corporation "Zukunft" is one of Germany's large producers of brown coal briquettes, a domestic fuel produced from brown coal and used extensively in Germany, France, Holland, Belgium, and Switzerland. Capacity of the company's briquetting plants is being increased from 600,000 tons to 900,000 tons annually. Coal reserves are estimated to be sufficient for more than 90 years' operations at the increased capacity. Coal unsuitable for briquetting is used to generate electricity.

The company owns a power plant with an installed capacity of 18,000 horsepower and operates under contracts extending to 1972, two plants with combined capacity of 75,000 horsepower. About 22 per cent of the electricity generated is used by the company itself, 31 per cent sold to industrial consumers and 47 per cent sold at wholesale to community-owned distribution companies which in turn supply a territory having a population of approximately 700,000, situated to the north and west of Cologne.

**SECURITY**

These series A bonds will be secured, in opinion of counsel, by a mortgage (Grundschild) in terms of gold marks or fine gold, to be a first lien (subject only to the prior lien securing payments to be made under the Dawes plan, the principal amount of which, on the basis of the last assessment, is \$656,000) upon substantially all of the fixed properties of the company now owned, including its briquetting factories, coal reserves, and power plant. Mortgaged properties, appraised in February, 1928, have a conservative valuation of over \$10,000,000. An additional \$1,000,000 of bonds of other series may be issued for additions to mortgaged property under the restrictions of the indenture.

Earnings: Net earnings, after depreciation and depletion, for the three years and nine months ended December 31, 1927, averaged \$587,394 or over two and three-fourths times the combined annual requirement of \$211,004 for annuities payable under the last assessment under the Dawes plan, interest on

these bonds, and present fixed charges payable under the lease of one power plant. For the nine months ended December 31, 1927, such earnings were at an annual rate of over three and three-fourths times this requirement. Approximately two-thirds of the company's earnings are derived from the production of briquettes and one-third from the operation of power plants.

Purpose of issue: Proceeds received from the sale of these series A bonds and of additional common stock, the issue of which has been underwritten, will be used to complete construction now under way and to retire all current indebtedness.

Equity: The company's common stock, based on present market quotations, has an indicated market value of over \$6,000,000. Dividends at the rate of 10 per cent per annum have been paid in each of the past three years.

Sinking fund: The indenture will provide for an accumulative sinking fund payable semiannually, beginning October 1, 1928, in bonds or cash, sufficient to retire all bonds of this series at or before maturity.

#### PRICE ON APPLICATION

Legal matters passed upon by Messrs. Ropes, Gray, Boyden & Perkins in the United States, and by Dr. Friedrich Kempner in Germany. Listed on Boston Stock Exchange.

LEE, HIGGINSON & Co.  
HIGGINSON & Co., London.

MAY, 1928.

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#### BROWN COAL INDUSTRIAL CORPORATION "ZUKUNFT," Weissweiler, Germany, March 10, 1928.

Messrs. LEE, HIGGINSON & Co.

DEAR SIR: In connection with the issue of \$2,000,000 sinking-fund mortgage gold bonds, series A, 6½ per cent, of the Brown Coal Industrial Corporation "Zukunft," we submit the following information:

#### BUSINESS

The Brown Coal Industrial Corporation "Zukunft," founded in 1913, is one of the large companies engaged in mining the extensive brown coal (lignite) deposits of the Rhine Valley in Germany and the production therefrom of briquettes, an excellent household fuel. Such briquettes are used extensively in Germany, France, Holland, Belgium, Switzerland, and other countries. Production of brown-coal briquettes in Germany has increased from approximately 22,000,000 tons in 1913 to over 36,000,000 tons in 1927.

Brown coal not suitable for the production of briquettes makes a satisfactory and economical fuel for power plants. The company owns a steam-power plant with an installed capacity of 18,000 horsepower. It operates a second steam-power plant, with an installed capacity of 57,000 horsepower, under a lease extending to 1972. This lease provides that the company shall pay all operation expenses and interest on the interest-bearing indebtedness of the corporation owning the steam-power plant and dividends at the rate of 6 per cent per annum on its common stock, now outstanding in the amount of \$511,700, plus an additional one-half of 1 per cent for each 1 per cent over 6 per cent paid in dividends by the company on its own shares. In addition, an 18,000 horsepower hydroelectric plant, used principally at times of peak load, is operated under a contract extending to 1972, which provides that receipts from the sale of electricity produced by the plant shall be divided equally between the company and the corporation owning the plant.

About 22 per cent of the electricity generated is used by the company in mining and briquetting operations, about 31 per cent is sold to industrial consumers and about 47 per cent is sold at wholesale to community-owned distribution companies which in turn supply a territory having a population of approximately 700,000, situated to the north and west of Cologne.

## CAPITALIZATION (TO BE OUTSTANDING UPON COMPLETION OF PRESENT FINANCING)

Funded debt: Sinking-fund mortgage gold bonds, \$6,000,000 authorized, series A 6½ per cent (this issue), \$2,000,000. Capital stock: Preferred stock, \$243,950; common stock, \$3,570,000. The principal amount upon which annual charges under the Dawes plan were last assessed is \$656,000.

## SECURITY

These series A bonds will be secured, in opinion of counsel, by a mortgage (Grundschuld) in terms of gold marks or fine gold, to be a first lien (subject only to the prior lien securing payments to be made under the Dawes plan, the principal amount of which, on the basis of the last assessment, is \$56,000) upon substantially all of the fixed properties of the company now owned, including its briquetting factories, coal reserves, power plant, and railroad lines. In addition the company will covenant that the two contracts under which the power plants are operated will not be modified prior to the maturity of any bonds issued under the indenture without the consent of the trustee.

The property serving as security for these series A bonds has been conservatively valued in an appraisal completed in February, 1928, at more than \$10,000,000, of which over \$6,316,000 represents the value of plants and equipment and \$3,684,000 the value of the coal reserves.

## PURPOSE OF ISSUE

Proceeds received from the sale of these series A bonds and of additional common stock, the issue of which has been underwritten, will be used to complete construction now under way, retire all current indebtedness, and add to the working capital.

## EARNINGS

Sales, charges for depreciation and depletion, and net earnings after such charges, for the three years ended March 31, 1927, and for the nine months ended December 31, 1927, were:

Year ended Mar. 31	Net sales	Depreciation and depletion	Net earnings after depreciation and depletion
1925.....	\$1,907,919	\$109,707	\$451,122
1926.....	2,167,231	163,032	536,246
1927.....	2,293,969	253,294	599,765
Nine months ended Dec. 31, 1927.....	2,378,028	256,787	615,596

For the 3 years and 9 months ended December 31, 1927, net earnings, after charges for depreciation and depletion, averaged \$587,394 or more than 2¾ times the combined annual requirement of \$211,004, consisting of \$30,360 for annuities payable under the last assessment under the Dawes plan, \$130,000 for interest on these bonds, \$30,702 for the fixed dividend on the stock of the corporation owning the steam power plant, and \$10,942 for interest on a loan contracted by the steam power plant and guaranteed by the company. For the 9 months ended December 31, 1927, such net earnings were at an annual rate of more than 3¾ times this requirement. Approximately two-thirds of the company's earnings are derived from the production of briquettes and one-third from the operation of power plants.

## SINKING FUND

The indenture will provide for an accumulative sinking fund payable semi-annually, beginning October 1, 1928, in bonds or cash, sufficient to retire all bonds of this series at or before maturity. Cash will be applied to purchase series A bonds at or below par and accrued interest or, if not so obtainable, or if the company so directs, to call series A bonds for redemption at par and accrued interest.

## BALANCE SHEET

*Statement of assets and liabilities based on interim balance sheet as of December 31, 1927, adjusted to show the results of this financing and the issue of additional common stock*

Assets:		
Property, plant, and equipment-----	\$5,541,873	
Less reserve for depreciation and depletion----	256,787	
		\$5,285,086
Current assets--		
Cash-----	68,768	
Accounts receivable-----	864,686	
Inventories-----	72,578	
		1,006,032
Deferred assets, etc.-----		268,140
		<u>6,559,258</u>
Liabilities:		
Funded debt--		
Sinking fund mortgage gold bonds, series A 6½		
per cent (this issue)-----		2,000,000
Current liabilities--		
Accounts payable-----	16,182	
Dividends payable-----	3,035	
		19,217
Capital stock--		
Preferred stock-----	243,950	
Common stock-----	3,570,000	
		3,813,950
Surplus--		
Legal reserve-----	321,338	
Profit and loss-----	404,753	
		726,091
		<u>6,559,258</u>

This balance sheet does not show the principal amount of \$656,000 upon which annual charges, under the Dawes plan, are at present payable. The company has a contingent liability through the guarantee of a 5 per cent loan now amounting to \$218,846 contracted by the corporation owning the steam power plant. The company intends in the near future to borrow some \$550,000 from banks and loan it to the steam power plant corporation to enable the latter to pay for improvements now being made. When deemed expedient, it is expected that the corporation owning the steam power plant will repay this loan by calling for payment of \$678,300 on its partly paid stock.

## CONTROL AND EQUITY

Control of the company recently has been acquired, through the purchase of over 50 per cent of its stock, by the Rhine-Westphalia Electric Power Corporation which operates one of the largest electric systems in Europe. The company thus constitutes a unit in the nation-wide electrification of Germany which is being carried out in connection with the "rationalization" of industry. The outstanding capital stock of the Rhine-Westphalia Electric Power Corporation at present quotations has an indicated market value of over \$60,000,000.

The common stock of the Brown Coal Industrial Corporation "Zukunft," based on present market quotations, has an indicated market value of over \$6,000,000. Dividends at the rate of 10 per cent per annum have been paid in each of the past three years.

## PROPERTIES

The company's two briquetting plants have a present annual capacity of 600,000 tons which is now being increased to 900,000 tons. These plants are most modern in design, practically all the operations including the loading of the briquettes for shipment being accomplished by automatic machinery. The

coal unsuitable for briquetting is carried by belt conveyors direct to the boilers of the power plants and used without further preparation. Sufficient moisture is obtained from the briquetting process to furnish the power plants with a high-grade water supply, thus rendering them independent of the water supply usually required.

The company's proved reserves of brown coal, occurring in seams averaging about 70 feet in thickness and covered by a layer of earth averaging not more than 90 feet in depth, amount to over 300,000,000 tons. These reserves underlie an area of over 4,000 acres and are estimated to be sufficient for more than 90 years' operations at the increased capacity contemplated. After stripping the overlying earth and mining the coal by automatic machinery, the coal is carried to the combined briquetting and power plants by the company's own railroad.

#### DESCRIPTION OF BONDS

These sinking fund mortgage gold bonds, series A  $6\frac{1}{2}$  per cent will be secured by a mortgage (Grundschild) in terms of gold marks or fine gold, to Direction der Disconto-Gesellschaft, Berlin, as trustee and attorney for the bondholders. They will be dated April 1, 1928, due April 1, 1953; interest will be payable semiannually April 1 and October 1; and they will be coupon bonds of \$1,000 and \$500 denominations. Series A bonds will be callable on 30 days' notice for sinking fund on any interest date and otherwise than for sinking fund on and after April 1, 1933, as a whole at any time or in part on any interest date on three months' notice, at par and accrued interest in each case. Principal and interest will be payable in United States gold coin of the present standard of weight and fineness in Boston, New York, and Chicago at the offices of Messrs. Lee, Higginson & Co., fiscal agents for the service of this loan, without deduction for any German taxes, present or future.

An additional \$4,000,000 of bonds of other series may be issued under the restrictions of the indenture. Up to \$2,000,000 of this amount may be issued for 100 per cent of the cost or fair value of additions to the mortgaged property, the remaining \$2,000,000 being issuable for  $66\frac{2}{3}$  per cent of the cost or fair value of electrical property installed or acquired, and/or for 40 per cent of the cost or fair value of briquetting plant and coal reserves acquired, when such property is subjected to the lien of the indenture.

No additional bonds may be issued under the indenture unless average earnings after depreciation and depletion, for the two years ending within three months preceding the date of application for the issue of new bonds, shall have been three times the following:

- (a) Annual service of the Daves plan obligations.
- (b) Interest on all bonds outstanding including those proposed to be issued.
- (c) Guaranteed dividends on outstanding stock and interest on all interest-bearing indebtedness of the corporation owning the leased power plant, which is a liability of the company.

The company covenants that it will not assume liability for dividends on any increase in capital stock or for any increase in the interest-bearing indebtedness of the corporation owning the leased steam power plant unless the earnings of the company as defined above shall have been for two years three times the above fixed charges, including the fixed charges on the proposed increase of debts or capital of the leased steam power plant.

Very truly yours,

DR. ROBERT FRANK,  
*Generaldirektor.*

Confirmed and approved, May 15, 1928.

RICHARD MEYER,  
HEINRICH STEINMEYER,  
*Directors.*

#### \$2,000,000, CLOSED ISSUE, PROVINCE OF LOWER AUSTRIA, SECURED SINKING-FUND $7\frac{1}{2}$ PER CENT GOLD BONDS

Dated December 1, 1925. Due December 1, 1950.

Interest payable June 1 and December 1. Principal and interest payable in New York at the office of J. & W. Seligman & Co., fiscal agents of the loan, and in Vienna at the Niederösterreichische Escomptegesellschaft, in United States gold coin of the present standard of weight and fineness, without deduction for any present or future taxes or duties of the Province of Lower Austria, the

Republic of Austria, or any taxing subdivision thereof, in time of war as well as in time of peace, irrespective of the nationality of the holder.

Redeemable at the option of the Province as a whole or in part on any semi-annual interest-payment date to and including December 1, 1926, at 105; thereafter to and including December 1, 1927, at 104; thereafter to and including December 1, 1929, at 103; thereafter to and including December 1, 1931, at 102; thereafter to and including December 1, 1933, at 101½; thereafter to and including December 1, 1935, at 101; and thereafter at par in each case with accrued interest to the date of redemption. Callable also for the sinking fund at par.

Central Union Trust Co. of New York, trustee.

Coupon bonds in the denominations of \$1,000 and \$500 registerable as to principal.

Information regarding the Province, these bonds, and the security therefor is given in a letter to the bankers by Buresch, Governor of the Province of Lower Austria. This information is summarized in part as follows:

*General.*—The Province of Lower Austria surrounds the federal district of Vienna and is one of the largest, wealthiest, and most important of the autonomous political units of Austria. Its area is 7,420 square miles and its population 1,480,000. Austrian currency was stabilized in November, 1922, and has since been maintained at par. At present the gold reserve against notes in circulation is 64 per cent. The recently adopted currency, the schilling, has a par value of 14¼ cents, and conversions into dollars in this statement are made on this basis.

*Security.*—These bonds are the direct obligation of the Province of Lower Austria. They are specifically secured by pledge of the provincial real-estate tax, the yearly current yield of which is over seven times the amount required for the service of this loan. This tax takes precedence over first mortgages and all other liens. Provision will be made for the automatic specific pledge of additional taxes enumerated in the trust agreement (a) to an extent sufficient to maintain the yield of the pledged taxes at a minimum of four times the amount required for the service of the loan; (b) in case the Province shall at any time pledge any taxes for any purpose whatsoever other than that of this loan, then to an extent sufficient to maintain the yield from the pledged taxes at not less than ten times the amount required for the service of the loan. For the year 1924 these additional taxes yielded \$3,844,000, or approximately twenty-two times the service of the loan. As additional security the Province will create a mortgage on real estate valued at \$2,000,000, registerable in case of default.

*Sinking fund.*—The trust agreement will provide for the payment in equal semiannual installments to the fiscal agents beginning June 1, 1926, as a cumulative sinking fund of amounts calculated to retire the entire issue of bonds at or before maturity. All moneys thus paid to the fiscal agents are to be used to purchase bonds at not exceeding par and accrued interest, and, if not so obtainable within the period set by the trust agreement, are to be used to redeem bonds at par and accrued interest on the next succeeding interest-payment date.

*Purpose.*—To finance additional investment by the Province of Lower Austria in the Lower Austrian Hydroelectric Power Co. (Newag), of which the Province and the city of Vienna are principal shareholders. This company has been doing a rapidly increasing business and requires additional capital in connection therewith.

Price on application.

The Province of Lower Austria has agreed to apply for the listing of these bonds on the New York Stock Exchange.

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\$2,500,000 DEPARTMENT OF CAUCA VALLEY, DEPARTAMENTO DEL VALLE DEL CAUCA,  
REPUBLIC OF COLOMBIA, 20-YEAR 7½ PER CENT SECURED SINKING-FUND  
GOLD BONDS

Dated October 1, 1926. Due October 1, 1946.

Authorized, \$4,000,000. Amount of this issue, \$2,500,000. Interest payable April 1 and October 1. Principal and semiannual interest payable in United States gold coin at the office of J. & W. Seligman & Co., New York, fiscal agents, free of all taxes, present or future, of the Department of Cauca Valley, the Republic of Colombia, or any taxing subdivision thereof. Coupon bonds in denominations of \$1,000 and \$500, registerable as to principal only. Callable as a whole or in part for the sinking fund at 103 and accrued interest on any semiannual interest date.

All of these bonds to be retired by lot at 103 and accrued interest through a cumulative sinking fund operating on each semiannual interest date, commencing April 1, 1927. Central Union Trust Co. of New York, trustee.

The issuance of these bonds has been approved by the Government of the Republic of Colombia.

The following information has been summarized from the statement of Dr. Manuel A. Carvajal, governor of the Department of Cauca Valley:

*Cauca valley.*—The Department of Cauca Valley (Department del Valle del Cauca) is located in the western part of the Republic of Colombia, fronting on the Pacific Ocean. It has an area of 7,960 square miles and a population of approximately 300,000.

Cauca Valley occupies an important commercial position through possession of the port of Buenaventura, the only deep-sea port of the Republic of Colombia on the Pacific, advantageously located within 340 miles of the Panama Canal. Practically the entire Pacific coast trade of Colombia, including approximately one-third of all the coffee exported from the Republic, passes through Buenaventura.

Cauca Valley is rich in agricultural resources and in mineral deposits. Sugar, coffee, tobacco, bananas, plantains, cacao, corn, and other agricultural products are grown in substantial quantities within the Department. Large areas of good pasture land available make cattle and livestock raising an important industry. Coal is mined in the neighborhood of Cali, the capital, where large undeveloped coal reserves exist.

The Department contains nearly one-fourth of the entire railroad mileage of Colombia and more than any other Department of the Republic. The Pacific Railroad crosses its entire length and breadth and is constructing a line eastward which will eventually link up Bogota, the capital of Colombia, with Buenaventura. This development should greatly augment the trade passing through that port and stimulate the further growth and development of Cauca Valley.

*Security.*—These bonds will be the direct obligation of the Department of Cauca Valley and will be specifically secured by a first charge and lien on (1) all of the revenues derived from the tobacco tax; (2) 80 per cent of the revenues derived from the tax on slaughtering of cattle; (3) 80 per cent of the taxes or revenues derived from the manufacture and sale of liquor.

The Department agrees in certain contingencies to increase the taxes or revenues securing the loan or to add other taxes or revenues as additional security.

The trust agreement provides, among other restrictions, that the Department of Cauca Valley shall not issue any of the remaining authorized bonds unless the combined annual interest and sinking fund charges on the bonds theretofore issued and on such additional bonds shall, during the three preceding fiscal years, have been covered at least four times by the average yield of the revenues securing the present issue.

*Revenues.*—The total receipts from the said revenues or taxes for the seven years ended June 30, 1926, averaged \$1,819,952 annually, of which the proportion securing these bonds is equivalent to over six and four-tenths times the combined annual interest and sinking fund requirements of \$246,490 on this issue. For the fiscal year ended June 30, 1926, the revenues or taxes totaled \$2,775,047, of which the proportion securing these bonds is equivalent to more than nine and eight-tenths times the annual interest and sinking fund requirements on this issue.

The Department has agreed that the respective proportions of the total receipts from the said revenues or taxes securing these bonds shall be deposited as collected with the branch of the Royal Bank of Canada at Cali, the capital of the Department, or such other bank as may be agreed upon by the Department and the fiscal agents, which shall remit monthly or oftener from the revenues so deposited until the amount necessary to meet the next ensuing semiannual interest and sinking fund payments on these bonds is on deposit with the fiscal agents.

*Purpose of loan.*—The proceeds of this loan will be partly used to retire approximately \$750,000 bonds, being the external debt now outstanding, but principally to extend and improve the railroad and highway system throughout the Department.

*Finances.*—The present issue of bonds will constitute the only funded debt, external or internal, of the Department and will be outstanding at the relatively low rate of approximately \$8 per capita.

The Department, during the past nine years, has shown a surplus of receipts over expenditures.

All conversions to United States dollars made herein are at par of exchange, which for the Colombian dollar or peso is equivalent to \$0.9733. During the past three years the Colombian dollar has maintained a high degree of stability, remaining above or approximately at parity, and at the present time is at a premium against the United States dollar.

These bonds are offered when, as, and if issued and received by us, subject to prior sale and subject to the approval of counsel, Messrs. Cravath, Henderson & de Gersdorff, and associate Colombian counsel, for the bankers, and Phanor J. Eder for the Department. Interim receipts or temporary bonds deliverable in the first instance.

Application will be made to list these bonds on the New York Stock Exchange. Price 96½ and interest to yield 7.90 per cent to final redemption.

J. & W. SELIGMAN & Co.  
BAKER, KELLOGG & Co. (INC.)

The following statement as to Cauca Valley and the loan has been made to us by Dr. Manuel A. Carvajal, governor of the Department of Cauca Valley; and as to the Republic of Colombia by Dr. Enrique Olaya Herrera, Colombian Minister to the United States:

#### CAUCA VALLEY

The Department of Cauca Valley is located in the western part of the Republic of Colombia, fronting on the Pacific Ocean. It has an area of 7,060 square miles and a population of approximately 300,000. The capital, Cali, with a population of 68,000 is located on the Cauca River and on the Pacific Railway, both of which are important transportation mediums, and is the center of a large commercial district. The Department, which was formed in 1911, enjoys local autonomy under the national government, with power to impose and collect taxes and administer its domestic affairs. Its status corresponds broadly to that enjoyed by the various States in the United States in relation to the Federal Government, except that while its assembly is elected, its governor is appointed by the President of the Republic.

Cauca Valley occupies an important commercial position through possession of the port of Buenaventura, the only deep-sea port of the Republic of Colombia on the Pacific, advantageously located within 340 miles of the Panama Canal. Practically the entire Pacific coast trade of Colombia, including approximately one-third of all the coffee exported from the Republic, passes through Buenaventura. The growing importance of this port is indicated by the fact that, as compared with 7 per cent in the pre-war period, in 1922 it handled 15.3 per cent of the total foreign trade of Colombia; in 1923, 18 per cent; in 1924, 21.1 per cent; while in 1925, the percentage of the total foreign trade had increased to 22.2 per cent. Seven important steamship lines now make Buenaventura a regular port of call. The extension of the Pacific Railway eastward, which will eventually link up Bogota, the capital of Colombia, with Buenaventura, and the first section of which is nearing completion, should greatly augment the trade passing through that port and stimulate the further growth and development of Cauca Valley.

The Department is rich in agricultural resources and in mineral deposits. Sugar, coffee, tobacco, bananas, plantains, cacao, corn, and other agricultural products are grown in substantial quantities within the Department. Large areas of good pasture land make cattle and livestock raising an important industry. Coal is mined in the neighborhood of Cali, where large undeveloped coal reserves exist. These coal deposits, readily accessible through direct rail and water transportation, have great possibilities of future development because of their proximity to the Panama Canal and Pacific coast regions, where there is a large demand for coal for shipping and other purposes.

From the standpoint of transportation facilities, Cauca Valley has an outstanding advantage, containing the greatest railroad mileage of any Department in the Republic and nearly one-fourth of the entire railroad mileage of Colombia. The Pacific Railway traverses the entire length of the Department from north to south and from east to west, and together with the Cauca River, which is navigable throughout the whole length of the Department, provides

not only a ready means of transport to markets for its own products, but makes Cauca Valley the natural trade route for the rich coffee growing areas and gold and mineral producing regions adjoining.

#### SECURITY

These bonds will be the direct obligation of the Department of Cauca Valley, and will be specifically secured by a first charge and lien on (1) all of the revenues derived from the tobacco tax; (2) 80 per cent of the revenues derived from the tax on slaughtering of cattle; (3) 80 per cent of the taxes or revenues derived from the manufacture and sale of liquor.

These three taxes or revenues constitute the principal sources of income of the Department, and have shown a stable or steadily growing tendency during the past 15 years.

The Department agrees that, in the event that the proceeds of the taxes or revenues securing these bonds are reduced at any time during the life of this loan so that they produce less than five times the annual service of the loan, it will take action to increase such taxes or revenues so that they will yield at least five times such annual service.

The Department further agrees that in case these three taxes or revenues should in any year be less than twice the annual service of the loan, the Department will, at the request of the fiscal agents or trustee, designate additional revenues as security for the loan sufficient to cover such deficit, until the revenues originally pledged again reach twice the service of the loan.

The trust agreement provides, among other restrictions, that the Department of Cauca Valley shall not issue any of the remaining authorized bonds unless the combined annual interest and sinking fund charges on the bonds theretofore issued and on such additional bonds shall, during the three preceding fiscal years have been covered at least four times, by the average yield of the revenues securing the present issue.

#### REVENUES

The total receipts from the taxes or revenues securing these bonds have been as follows:

	Tobacco	Slaughter	Liquor	Total
<b>Fiscal year ended June 30:</b>				
1920.....	\$476,540	\$83,994	\$1,063,465	\$1,624,008
1921.....	410,708	86,600	1,109,002	1,606,319
1922.....	509,061	100,891	840,587	1,450,539
1923.....	525,498	112,032	937,253	1,574,783
1924.....	614,715	123,144	927,045	1,664,906
1925.....	722,565	124,644	1,196,824	2,044,063
1926.....	1,090,602	138,990	1,545,455	2,775,047

The receipts from the revenues or taxes as shown above, for the seven years ended June 30, 1926, averages \$1,819,952 annually, of which the proportion securing these bonds is equivalent to over 6.4 times the combined annual interest and sinking fund requirements of \$246,400 on this issue. For the fiscal year ended June 30, 1926, these revenues or taxes totaled \$2,775,047, of which the proportion securing these bonds is equivalent to more than 9.8 times the annual interest and sinking fund requirements on this issue.

The department has agreed that the respective proportions of the total receipts from the said revenues or taxes securing these bonds shall be deposited as collected with the branch of the Royal Bank of Canada at Cali, or such other bank as may be agreed upon by the department and the fiscal agents, which shall remit monthly, or oftener, from the revenues so deposited until the amount necessary to meet the next ensuing semiannual interest and sinking fund payments on these bonds is on deposit with the fiscal agents. The department has also agreed that it shall maintain on deposit with the fiscal agents at all times during the life of the loan an amount equivalent to 5 per cent of the total amount of bonds at any time issued, which is in excess of 6 months' interest and sinking-fund requirements on the bonds presently to be issued.

## SINKING FUND

The trust indenture provides for the retirement of all of these bonds by lot at 103 and accrued interest through a cumulative sinking fund operating on each semiannual interest date, commencing April 1, 1927.

## PURPOSE OF LOAN

The proceeds of this loan will be partly used to retire approximately \$750,000 of external debt now outstanding, but principally to extend and improve the railroad and highway system throughout the department.

## FINANCES

The present issue of bonds will constitute the only funded debt, external or internal, of the department and will be outstanding at the relatively low rate of approximately \$8 per capita.

The department, during the past nine years, has shown a surplus of receipts over expenditures.

The issuance of these bonds has been approved by the Government of the Republic of Colombia.

All conversions to United States dollars made herein are at par of exchange, which for the Colombian dollar or peso is equivalent to \$0.9733.

## THE REPUBLIC OF COLOMBIA

Colombia is the nearest in distance to the United States of the South American Republics. Lying at the gateway of the Panama Canal, with a coast line both on the Atlantic (Caribbean Sea) and the Pacific, its geographical situation is most favorable from a commercial standpoint. It has an area of about 475,000 square miles, or greater than that of all the States of the Atlantic Coast from Maine to Florida, and a population of about 6,300,000. While fifth in area, it ranks third in population among the South American Republics and is one of the two South American States with a seat on the Council of the League of Nations, Chile being the other.

Colombia, primarily an agricultural nation, possesses an abundance and variety of natural resources. It is the second largest producer in the world of coffee, and the largest producer of mild coffee, of which it exports large quantities yearly to the United States and other foreign markets. Among its other valuable agricultural products are bananas, sugarcane, and tobacco. Large areas of good pasture land make cattle raising an important activity. The Republic is also rich in mineral resources, ranking as the largest producer of platinum and emeralds in the world, and possessing valuable deposits of coal and petroleum. Gold mining is one of the oldest industries in the country, gold ranking second to coffee as a source of exports. Active development of Colombian oil fields is now under way under the leadership of important American oil interests owning large areas of proven acreage in the country. A pipe line to transport the petroleum products from the interior to the coast was recently completed and should prove a stimulus to the further expansion of the industry. The pipe line is 350 miles in length and has a daily carrying capacity of 30,000 barrels, which, it is reported, will be increased to 50,000 barrels daily. First exports of crude petroleum from Colombia occurred in July this year and amounted to about 795,000 barrels, valued at about \$1,644,500. Of this total, 706,000 barrels, valued at \$1,459,654, were exported to the United States.

The United States paid to Colombia, under the treaty settling questions arising out of the establishment of Panama as a separate Republic, the sum of \$25,000,000 in annual installments of \$5,000,000, the last of which was paid on September 1, 1926. Part of this payment has been used under the guidance of a commission of experts headed by Dr. E. W. Kemmerer of Princeton University, to establish a central bank organized along the lines of the Federal reserve system of the United States with exclusive power of note issue. The remainder of the payment has been used to establish an agricultural mortgage bank, for railroad construction, and for debt retirement. Since the establishment of the Central Bank in 1923, Colombian exchange has ruled at or above the par of exchange, and the administration of the currency by the Central Bank gives every assurance of its continued soundness.

External debt of Colombia as of June 30, 1926, amounted to approximately only \$14,000,000 and internal debt to \$10,000,000, making an aggregate debt of \$24,000,000, equivalent to the low rate of \$4 per capita.

Foreign trade has grown from \$62,000,000 in 1913, to \$122,000,000 in 1924, and to \$170,000,000 in 1925. In every one of the past 20 years, with but two exceptions, Colombian trade has shown an excess of exports over imports.

The greater part of the foreign trade of the country is with the United States, which imports annually from Colombia large quantities of coffee and other products, exporting in return various manufactured goods.

**\$1,500,000 HOUSING & REALTY IMPROVEMENT CO. FIRST MORTGAGE 20-YEAR SINKING FUND 7 PER CENT GOLD BONDS (CLOSED MORTGAGE)**

Dated November 15, 1926. Due November 15, 1946.

Interest payable November 15 and May 15. Coupon bonds in denominations of \$1,000 and \$500, registerable as to principal. Principal and interest payable in New York City at the office of J. & W. Seligman & Co., fiscal agents, in United States gold coin of the present standard of weight and fineness, without deduction for any German taxes, and payable in time of war as well as in time of peace, irrespective of the residence or nationality of the holder.

The payment of interest, sinking fund, and principal at maturity, is insured, jointly and severally, by German insurance companies.

Cumulative sinking fund beginning May 15, 1927, sufficient to redeem the entire issue by maturity through semiannual drawings at par and accrued interest. In lieu of sinking fund payments the company may deliver, at par, outstanding bonds of this issue. Not redeemable except for the sinking fund before November 15, 1929; redeemable on November 15, 1929, and any interest date thereafter to and including May 15, 1931, at 110; thereafter to and including May 15, 1934, at 103; thereafter to and including May 15, 1936, at 102; thereafter to maturity at 100, in each case with accrued interest.

Guaranty Trust Co. of New York, trustee; Dresdner Bank, Berlin, German trustee.

The following information has been summarized by Dr. Bernhard Francke, managing director of the company, from his accompanying letter:

**PROPERTY**

The Housing & Realty Improvement Co. was organized for the purpose of erecting and operating on an entire city block in Berlin 23 apartment houses containing 1, 2, 3, and 4 room apartments, greatly needed because of the housing shortage there. The land is located on Kurfürstendamm, which is the main avenue of traffic in the western section of the city, served by subways, surface cars, and bus lines, and traversing the center of the residential district.

The site contains 363,000 square feet with a frontage of 368 feet on Kurfürstendamm, and is the only vacant block of land in this neighborhood. The buildings will be placed on it in the form of a hollow square, with stores, a café with ballroom, and a restaurant accommodating 1,500 people, facing the Avenue Kurfürstendamm, and with apartment houses having a total of 973 rooms on the other three sides. Facilities for sports and other recreations will be located within the block.

**SECURITY**

These bonds, in the opinion of counsel, will be secured, on the completion of this financing, by a closed first mortgage on the four parcels of land comprising the site, on the leases thereof, and on the buildings to be erected thereon. The land is owned in fee by Felicia Lachmann-Mosse, owner and publisher of the Berliner Tageblatt, one of Germany's leading newspapers, and she has leased each parcel to a separate subsidiary of the borrower for a term expiring after the maturity of the bonds.

A mortgage will be executed by Felicia Lachmann-Mosse and by each of said subsidiaries and will be registered in gold marks under the German stable value mortgage law, on the two most important parcels and leases thereof for an amount equivalent to 10 per cent in excess of the entire principal amount of the bonds and on the other two parcels and the leases thereof for smaller amounts. There will also be pledged, pursuant to the trust agreement, as further security, the stock of each of these lessee subsidiary companies.

## VALUATION

The insurance companies before agreeing to insure the payment of these bonds appraised the land at \$2,272,619. The cost of the buildings is estimated at \$1,904,762, making the total valuation of the land and buildings \$4,177,381. This loan represents only 36 per cent of the total valuation of the land and buildings upon completion. There will be second mortgages held by the city of Berlin aggregating approximately \$430,000, running for 50 years, on the two largest parcels and on the leases thereof.

## INSURANCE COMPANIES' OBLIGATION

The payment of the interest, sinking fund, and principal at maturity is insured, jointly and severally, by German insurance companies, among which are the Allianz Insurance Co., founded in 1890, whose resources alone exceed \$30,000,000, and the Münchener Reinsurance Co., founded in 1880.

## EARNINGS

The net rental income based upon a conservative rental schedule and after making allowance for vacancies, maintenance, and operating charges, including taxes, insurance, depreciation, etc., is estimated at \$320,000 per annum, or over three times the annual interest charges on this loan. The company's earnings, and the land and buildings, are not subject to any charges under the Dawes plan.

## PURPOSE OF ISSUE

The proceeds from the sale of these bonds will, by agreement between the insurance companies and the borrower, be deposited with the Dresdner Bank, Berlin, and be disbursed for the construction and development of the properties and to the payment of the existing mortgages thereon.

All conversions from German to United States currency have been made at the rate of 4.20 marks to the dollar. Price 98 and accrued interest to yield 7.19 per cent.

These bonds are offered when, as, and if issued and received by us, subject to prior sale and subject to the approval of counsel in New York and associate German counsel. Temporary bonds or interim certificates of Guaranty Trust Co. of New York will be delivered in the first instance.

J. & W. SELIGMAN & Co.

The statements contained herein are received from sources believed to be reliable but are not guaranteed, and are in no event to be construed as representations made by us.

HOUSING & REALTY IMPROVEMENT Co.,  
Berlin, November 15, 1926.

J. & W. SELIGMAN & Co.,  
E. H. ROLINS & SONS,  
FOREIGN TRADE SECURITIES Co. (LTD.),  
New York, N. Y.

GENTLEMEN: In connection with your purchase of \$1,500,000 first mortgage 20-year sinking fund 7 per cent gold bonds, due November 15, 1946, we submit the following information:

## PROPERTY

The Housing & Realty Improvement Co. was organized for the purpose of erecting and operating on an entire city block in Berlin a building unit consisting of apartments and stores which are greatly needed because of the housing shortage. The land is located on Kurfürstendamm, which is the main avenue of traffic in the western part of the city. The site contains 363,000 square feet with a frontage of 368 feet on Kurfürstendamm, is in the heart of the residential section of the city, and is the only vacant block in this neighborhood. It is served by subways, surface cars, and bus lines.

The plan for the buildings is original in architectural design and practicality. They will be built in the form of a hollow square, with apartment houses on three sides containing 1, 2, 3, and 4 room apartments. Facing the Avenue Kurfürstendamm will be stores, a café with ballroom, and a restaurant accom-

modating 1,500 people. A sport and recreation center having covered tennis courts and other athletic facilities (the only institution of its kind in Berlin) will be located within the block.

#### SECURITY

These bonds, in the opinion of counsel, will be secured, on the completion of this financing, by a closed first mortgage on the four parcels of land comprising the site, on the leases thereof, and on the buildings to be erected thereon. The land is owned in fee by Felicia Lachmann-Mosse, owner and publisher of the Berliner Tageblatt, one of Germany's leading newspapers, and she has leased each parcel to a separate subsidiary of the borrower for a term expiring after the maturity of the bonds.

A mortgage will be executed by Felicia Lachmann-Mosse and by each of said subsidiaries, and will be registered in gold marks under the German stable-value mortgage law, on the two most important parcels and leases thereof for an amount equivalent to 10 per cent in excess of the entire principal amount of the bonds and on the other two parcels and the leases thereof for smaller amounts. There will also be pledged pursuant to the trust agreement, as further security, the stock of each of these lessee subsidiary companies.

#### INSURANCE COMPANIES' OBLIGATION

The payment of the interest, sinking fund, and principal at maturity is insured, jointly and severally, by German insurance companies, among which are the Allianz Insurance Co., founded in 1800, whose resources alone exceed \$30,000,000, and the Münchener Reinsurance Co., founded in 1880.

#### VALUATION

The insurance companies before agreeing to insure the payment of these bonds appraised the land at \$2,272,619. The cost of the buildings is estimated at \$1,904,762, making the total valuation of the land and buildings \$4,177,381. This loan represents only 36 per cent of the total valuation of the land and buildings, upon completion. There will be second mortgages held by the city of Berlin aggregating approximately \$430,000, running for 50 years, on the two largest parcels and on the leases thereof.

#### RENTAL DEMAND

The curtailment of new construction during and since the war has caused a pressing demand for apartment houses and amusement accommodations such as this program contemplates. Because of a rising tendency in rents, leases on the theaters, shops, and the sport center will be granted for 10 years only, and leases on the apartment houses for not exceeding 5 years.

#### EARNINGS

The net rental income based upon a conservative rental schedule and, after making allowance for vacancies, maintenance, and operating charges, including taxes, insurance, depreciation, etc., is estimated at \$320,000 per annum, or over three times the annual interest charges on this loan. The company's earnings, and the land and buildings, are not subject to any charges under the Dawes plan.

#### PURPOSE

The proceeds from the sale of these bonds will, by agreement, between the insurance companies and the borrower, be deposited with the Dresdner Bank, Berlin, and disbursed for the construction and development of the properties and to the payment of existing mortgages thereon.

#### MANAGEMENT

The board of directors (Aufsichtsrat) of the issuing company is composed of Ludwig Sachs, Arthur Hoffman, Curt Meyer, and Herman Korytowski, of whom the first three are prominent bankers. The management of the business and properties is under the supervision and direction of experienced business men thoroughly familiar with enterprises of this character.

## DESCRIPTION OF THE BONDS

The bonds are to be dated November 15, 1926, and will be due November 15, 1946. Interest is to be payable November 15 and May 15. Principal and interest are to be payable at the offices of the fiscal agents, J. & W. Seligman & Co., of New York, in United States gold coin of or equal to the present standard of weight and fineness, without deduction or diminution for any taxes, past, present or future, of the German Republic, or of any State, province, community, municipality or other taxing authority therein or thereof, and payable in time of war as well as in time of peace irrespective of the residence or nationality of the holder. The bonds are to be in coupon form in denominations of \$1,000 and \$500, registerable as to principal only.

Not redeemable except for the sinking fund before November 15, 1929; redeemable on November 15, 1929, and any interest date thereafter to and including May 15, 1931, at 110; thereafter to and including May 15, 1934, at 103; thereafter to and including May 15, 1936, at 102; thereafter to maturity at 100, in each case with accrued interest.

## SINKING FUND

The indenture under which these bonds are to be issued will provide for a cumulative sinking fund beginning May 15, 1927, sufficient to retire the entire issue by maturity through semiannual drawings at 100 and accrued interest. In lieu of sinking-fund payments the company may deliver, at par, outstanding bonds of this issue.

All conversions from German to United States currency have been made at the rate of 4.20 marks to the dollar.

Very truly yours,

WOHNHAUS-GRUNDSTÜCKS-VERWERTUNGS A. G.,  
AM LEHNINER PLATZ (BERLIN),  
DR. BERNHARD FRANCKE, *Managing Director*.

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\$8,000,000 REPUBLIC OF COSTA RICA EXTERNAL SECURED SINKING FUND 7 PER CENT GOLD BONDS, 1926

Dated November 1, 1926. Due November 1, 1951.

Interest payable May 1 and November 1. Principal and interest payable in United States gold coin of the present standard of weight and fineness, in New York City at the office of J. & W. Seligman & Co., fiscal agents, free from any Costa Rican taxes present or future. Coupon bearer bonds in interchangeable denominations of \$1,000 and \$500, redeemable on November 1, 1936, and on any interest date thereafter, in whole or in part, at 100 and accrued interest. Not redeemable prior to November 1, 1936, except for the sinking fund. A cumulative sinking fund will be provided, calculated to retire all these bonds by maturity, operating by purchase in the market at or below 100 and accrued interest or, if bonds are not so obtainable, then, by drawings at 100 and accrued interest. After November 1, 1936, the Republic may, at its option, increase the amount of any payments to the sinking fund. Central Union Trust Co., of New York, trustee.

Don J. Rafael Oreamuno, envoy extraordinary and minister plenipotentiary of the Republic of Costa Rica to the United States, has summarized his accompanying letter as follows:

*General.*—The Republic of Costa Rica adjoins Panama on the north, and extends from the Atlantic to the Pacific, with railroads linking up the ports on both coasts. More than half the country lies between two to six thousand feet above sea level, so that the climate is generally temperate and healthful. Most of the population is white and of European descent.

Costa Rica is rich agriculturally, being one of the largest producers of bananas and high-grade coffee. Cacao, sugarcane, tobacco, and rice are also grown in commercial quantities. The forests are extensive and valuable, producing cedar, mahogany, oak, and other cabinet woods.

The currency system was stabilized on a gold basis in 1924 at the rate of 4 colones for one United States dollar. Revenues of the Republic have exceeded

expenditures by a substantial margin in each of the past four fiscal years. Exports have exceeded imports in every year but one since 1913.

*Purpose.*—The proceeds of this loan will be used to the extent of approximately \$5,900,000 to retire internal indebtedness, effecting an appreciable saving in interest. The Republic plans to devote the remainder of the proceeds to productive public purposes.

*Security.*—These bonds will be the direct obligation of the Republic of Costa Rica and will be specifically secured by a direct lien or charge upon (1) the gross revenues of the Republic from customs duties, subject only to the lien of an external 5 per cent sterling loan of 1911 involving an annual charge not exceeding \$583,200, and (2) the gross revenues of the Republic from its monopoly of alcohol and liquors, subject only, after completion of this financing, to the lien in favor of an external 5 per cent franc loan of 1911, involving an annual charge not exceeding \$113,000. The Republic has now on deposit sufficient funds to retire the outstanding balance of this franc loan under the terms of an offer which has already been availed of by about three-fourths of the former bondholders, pursuant to which the Republic is purchasing the bonds at a price of \$50 for each 500-franc bond. After such retirement the bonds of this issue will be a first lien on the alcohol and liquor revenues, which alone in 1925 amounted to nearly two times the annual service of these bonds.

The Republic may pledge additional revenues and may issue additional bonds provided the revenues available as security for all the bonds are at least three times the service charges thereon, and may modify or abolish its alcohol and liquor revenues upon substitution of other equivalent revenues satisfactory to the trustee, all as more fully set forth in the trust agreement.

*Revenues.*—For the four years ended December 31, 1925, the gross yield from the revenues pledged as security for these bonds averaged \$3,811,224 annually. After deducting \$696,200, the annual prior charges above mentioned, the balance available for these bonds averaged four and one-half times the annual interest and sinking-fund requirements. The balance available for the year 1926, similarly calculated, based on returns for the first 10 months of the year, will approximate five times the annual service of these bonds.

The revenues pledged to secure these bonds are to be deposited daily during each month with the trustee's representative in Costa Rica for remittance to New York until the monthly service of these bonds has been covered.

All conversions of colones into United States dollars have been made at the rate of 4 colones to 1 dollar.

These bonds are offered when, as, and if issued and received by us, subject to prior sale and subject to the approval of our counsel, Messrs. Cravath, Henderson & de Gersdorff and associate Costa Rican counsel. Interim receipts or temporary bonds will be deliverable in the first instance.

Application will be made in due course to list these bonds on the New York Stock Exchange.

Price 95½ and interest, to yield about 7.40 per cent.

J. & W. SELIGMAN & Co.,  
 BLYTH, WITTER & Co.,  
 MARSHALL FIELD, GLORE, WARD & Co.,  
 F. J. LISMAN & Co.,  
 HEMPHILL, NOYES & Co.

#### REPUBLIC OF COSTA RICA

The following letter has been addressed to the Central Union Trust Co. of New York, which negotiated this loan, and to its associates, Messrs. J. & W. Seligman & Co., Blyth, Witter & Co., Marshall Field, Gloré, Ward & Co., F. J. Lisman & Co., and Hemphill, Noyes & Co.

DEAR SIRS: In connection with the issue and sale of \$8,000,000 external secured sinking fund 7 per cent gold bonds, 1926, I am pleased to submit the following information:

#### GENERAL

The Republic of Costa Rica adjoins Panama on the north and extends from the Atlantic to the Pacific. The area of the Republic is 23,000 square miles, nearly three times the size of Massachusetts. More than half the country is

elevated land lying between 2,000 to 6,000 feet above sea level, so that the climate, notwithstanding tropical belts along the coast, is generally temperate and healthful. The population of approximately 600,000 is chiefly white and of European descent.

The form of government is republican and is composed of legislative, executive, and judicial branches.

Costa Rica possesses port facilities on both its coasts. On the Atlantic is located the port of Limon, from which regular passenger and freight service is maintained with New York and other ports by the United Fruit Co., and on the Pacific is situated Puntarenas, which is a port of call for vessels of the Pacific Mail Steamship Co. Railroad lines cross the country from east to west, linking up the ports on the east and west coasts with each other and with San Jose, the capital.

Fertility of soil and favorable climatic conditions have made Costa Rica rich agriculturally. It is one of the largest producers of bananas and of high-grade coffee, and other agricultural products grown in commercial quantities are cacao, sugarcane, tobacco, and rice. The forests are extensive and valuable, producing cedar, mahogany, oak, and other cabinet woods. Gold, silver, and manganese are the principal items of mineral wealth. According to recent estimates, over \$60,000,000 of foreign capital is invested in the country, distributed approximately as follows: United States, \$28,000,000; Great Britain, \$26,000,000; France, \$4,200,000; Germany, \$2,500,000. The United Fruit Co. owns a large acreage of improved land devoted to the cultivation of bananas and cacao, in addition to reserve holdings of undeveloped land, railroads, and other properties, the total investment being estimated at \$15,000,000.

Exports have exceeded imports in every year but one since 1913. The principal exports are coffee and bananas, world-wide food staples the steady demand for which imparts great stability to the foreign trade of the Republic. Over 88 per cent of the export trade is with the United States and England.

#### PURPOSE OF THE LOAN

The proceeds of this loan will be used to the extent of approximately \$5,900,000 to retire internal indebtedness, effecting an appreciable saving in interest. The Republic plans to devote the remainder of the proceeds to productive public purposes.

#### SECURITY

These bonds will be the direct obligation of the Republic of Costa Rica, and will be specifically secured by a direct lien or charge upon (1) the gross revenues of the Republic from customs duties, subject only to the lien of an external 5 per cent sterling loan of 1911 involving an annual charge of \$583,200; and (2) the gross revenues of the Republic from its monopoly of alcohol and liquors, subject only, after completion of this financing, to the lien in favor of an external 5 per cent franc loan of 1911 involving an annual charge not exceeding \$113,000. The principal amount of this loan outstanding on October 1, 1926, was 9,000,000 francs, and the Republic has now on deposit sufficient funds to retire this amount under the terms of an agreement described below. After such retirement the bonds now to be issued will be a first lien on the alcohol and liquor revenues, which alone, in 1925, amounted to nearly two times the annual service of these bonds.

The Republic will covenant that, during the life of these bonds, it will not reduce, abolish, or in any manner impair the yield of the revenues now or at any time pledged to secure the loan: *Provided, however*, That the Republic may modify or abolish the monopoly of alcohol and liquors after substituting to the satisfaction of the trustee, other security which, for the three years prior to such substitution, shall have produced average annual gross revenues available to secure this issue, after deducting prior charges, if any, at least as great as the corresponding revenues from the monopoly of alcohol and liquors during that period, all as more fully set forth in the trust agreement.

The Republic, in agreement with the trustee, may subject additional revenues to the lien of the bonds, and may issue additional bonds, secured ratably with these bonds, whenever the gross revenues available as security for all the bonds, after deducting prior charges, if any, shall have averaged for the three years next preceding at least three times the service charges on all the bonds to be outstanding, all as more fully set forth in the trust agreement.

The revenues available as security for these bonds are to be deposited with the trustee's representative in Costa Rica daily during each month as the revenues are collected, until the monthly service of these bonds shall have been covered.

In addition to such monthly service, there is to be similarly deposited each month for two years, a sum which at the end of that period will aggregate three months' service charges on these bonds, said sum to remain on deposit in New York with the fiscal agents as additional security for these bonds.

Deposits made with the representative of the trustee in Costa Rica are to be promptly remitted to New York.

In the event of a default on these bonds, the trustee may, subject to the rights of the holders of any outstanding bonds with a prior lien on the revenues pledged, appoint a special agency to collect the revenues pledged for the service of these bonds, all as more fully provided in the trust agreement.

#### REVENUES

Total receipts from the revenues pledged as security for these bonds have been as follows (in colones, 4 colones being equal to one United States dollar).

	Customs duties	Alcohol and liquors monopoly	Total
1922.....	8,783,631	3,643,240	12,426,880
1923.....	10,264,268	3,796,917	14,061,185
1924.....	11,841,831	4,265,520	16,107,351
1925.....	13,419,829	4,971,330	18,391,159

For the four years ended December 31, 1925, the gross yield from the revenues pledged as security for these bonds averaged 15,244,806 colones, equivalent to \$3,811,224, annually. After deducting \$696,200, the annual prior charges above mentioned, the balance available for these bonds averaged 4½ times the annual interest and sinking fund requirements. The balance available for the year 1926, similarly calculated, based on returns for the first 10 months of the year, will approximate 5 times the annual service of these bonds.

#### CURRENCY AND FINANCES

The monetary unit of Costa Rica is the colon. The currency system was stabilized in 1924 on a gold basis at the rate of one dollar for four colones. Since that time, exchange has fluctuated narrowly about this rate. The old unsecured bank notes are being gradually retired and new notes may be issued only against a corresponding amount of gold, or its equivalent, on deposit in New York.

Stabilization of the currency has greatly strengthened the finances of the country. In each of the past four fiscal years revenues of the Government have exceeded its expenditures by a substantial margin, as evidenced by the following figures (in colones, 4 colones being equal to one United States dollar):

	Revenues	Expenditures	Surplus
1922.....	\$18,971,023	\$17,311,165	\$1,659,858
1923.....	20,520,547	18,208,368	2,312,179
1924.....	23,259,050	19,549,401	3,709,649
1925.....	25,781,231	23,767,551	2,013,680

These favorable results are attributable also to a reorganization, simultaneously with the currency reform, of the method of control over governmental expenditures. A commission of control was created, appointed by congress, to cooperate with the treasury in the preparation of the budget and in other related financial matters, and a system of internal control and check was established, with results which have proved highly satisfactory.

## DEBT

The external debt, in addition to these bonds, consists of a 5 per cent external sterling loan of 1911, of which £1,763,760 is at present outstanding, and of a 5 per cent external franc loan of 1911, of which less than 9,000,000 francs is at present outstanding. The sterling loan is being redeemed through a cumulative sinking fund.

The external franc loan of 1911 was originally issued in the principal amount of 35,000,000 francs. The Republic has regularly paid the current interest on this loan in French currency. After French currency had depreciated severely following the war, the French bondholders claimed payment of interest in gold francs instead of currency. The Republic claimed the right to continue to make payments in French currency as it had always done. This disagreement was settled by an agreement dated March 20, 1925, between the Republic and the National Association of French Bondholders providing for the purchase by the Republic of the bonds of the loan, then outstanding in the amount of 32,762,000 francs, at the rate of \$50 per bond of 500 francs plus accrued interest. This settlement represented an agreement to pay the bondholders at the rate of 10 cents (United States currency) per franc, although the franc was at that time quoted at only 5 cents in the foreign exchange markets. In accordance with this agreement, bonds aggregating 23,162,000 francs principal amount had been retired up to October 1, 1926, leaving outstanding on that date only about 9,000,000 francs principal amount, for the retirement of which the Republic has the necessary funds on deposit.

After applying the proceeds of the bonds which you have purchased to the retirement of internal indebtedness, as provided in the trust agreement, the Republic will have outstanding total indebtedness, both external and internal, of approximately \$17,500,000, without deducting the outstanding amount of the franc loan of 1911, the retirement of which has been provided for as above explained.

## REDEMPTION AND SINKING FUND

The bonds are not redeemable prior to November 1, 1936, except for the sinking fund, and are redeemable on any interest date thereafter, in whole or in part, at the option of the Republic, upon 60 days' notice, at 100 and accrued interest.

The trust agreement provides for a cumulative sinking fund, sufficient to retire all these bonds by maturity through purchases in the market at or below 100 and accrued interest, or if not so obtainable, through redemption by lot at 100 and accrued interest on each semiannual interest date. After November 1, 1936, the Republic may, at its option, increase the amount of any payments into the sinking fund.

## ARBITRATION

The trust agreement provides for referring any disagreement between the Republic and the trustee to a justice of the Supreme Court of the United States as the sole arbitrator.

All conversions herein from colones into United States dollars have been made at the rate of 4 colones for \$1.

J. RAFAEL OREAMUNO,  
*Envoy Extraordinary and Minister Plenipotentiary.*

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**\$15,000,000 REPUBLIC OF PERU SECURED 7 PER CENT SINKING FUND GOLD BONDS,  
1927**

A substantial amount of this issue has been reserved for sale in Europe, through Seligman Bros., and The National City Co., London, and through Pierson & Co., Netherlands Trading Co., and Mendelsohn & Co., Amsterdam.

Dated March 1, 1927. Due September 1, 1959.

Interest payable March 1 and September 1. Principal, premium, and interest payable in United States gold coin of the present standard of weight and fineness, in New York City, at the office of J. & W. Seligman & Co., fiscal agents, free from any Peruvian taxes present or future. Coupon bearer bonds in inter-

changeable denominations of \$1,000 and \$500, redeemable on any interest date, in whole or in part, at 105 and accrued interest.

A cumulative sinking fund will be provided, calculated to retire all these bonds by maturity through semiannual drawings at 105 and accrued interest. Central Union Trust Co., of New York, trustee.

His excellency, M. G. Masias, Minister of Finance of the Republic of Peru, has summarized his accompanying letter as follows:

*General.*—The Republic of Peru is the third largest country in South America, with a population estimated at 6,000,000. It is rich in minerals and in agricultural resources. It is the world's third largest producer of silver and for many years it has exported large quantities of low-cost copper. Its petroleum resources, considered of great potential value, are being rapidly developed by American and other foreign capital. A wide range of climatic conditions results in diversified agricultural production, the chief products being cotton and sugar.

*Purpose of the loan.*—The proceeds of this loan will be used to the extent of approximately \$3,000,000 to retire outstanding indebtedness, and the balance for the purchase of machinery and plants for the manufacture of tobacco products and for construction of railroads and irrigation and sewage systems.

*Security.*—These bonds will be the direct obligation of the Republic and, after the retirement out of the proceeds of this loan of the \$3,000,000 indebtedness above mentioned, will be secured by a first lien on the gross revenues of the Government tobacco monopoly. These bonds will be the first series of an authorized issue of £5,000,000 sterling or the equivalent in dollars, \$24,332,500, at par of exchange. Bonds of other series may not be issued to mature prior to these bonds, nor unless the gross tobacco revenues during the three years immediately preceding shall have averaged, and for the year immediately preceding shall have equalled, at least one and one-half times the maximum service charges on all the bonds to be outstanding.

*Revenues.*—The revenues pledged to secure these bonds averaged annually for the three years from 1924 to 1926, inclusive, LP. 1,077,957, equivalent to \$4,279,490 at the average rate of exchange prevailing during the period (\$3.97 per Peruvian pound). This sum is more than three and one-half times the annual interest and sinking fund requirements on these bonds.

These bonds are offered when, as, and if issued and received by us, subject to prior sale and subject to the approval of our counsel, Messrs. Cravath, Henderson and de Gersdorff, and associate Peruvian counsel. Interim receipts or temporary bonds will be deliverable in the first instance.

Application will be made in due course to list these bonds on the New York Stock Exchange. Price 96½, and accrued interest. Average yield 7.48 per cent.

J. & W. SELIGMAN & Co.,  
E. H. ROLLINS & SONS,  
F. J. LISMAN & Co.,  
THE NATIONAL CITY Co.,  
GRAHAM, PARSONS & Co.,  
AMES, EMERICH & Co. (Inc.)

REPUBLIC OF PERU,  
March 15, 1927.

Messrs. J. & W. SELIGMAN & Co., THE NATIONAL CITY Co., E. H. ROLLINS & SONS,  
GRAHAM, PARSONS & Co., F. J. LISMAN & Co., AMES, EMERICH & Co. (Inc.)

DEAR SIRS: In connection with the issue and sale of \$15,000,000 secured 7 per cent sinking fund gold bonds, 1927, of the Republic of Peru, I am pleased to submit the following information:

#### GENERAL

The Republic of Peru is the third largest country in South America, with an area of approximately 550,000 square miles and a population estimated at 6,000,000. Construction of the Panama Canal reduced the distance from New York to Callao, its chief port and one of the most important in South America, from 9,000 to less than 3,500 nautical miles.

Mining and agriculture are the principal activities of Peru. Peru is the world's third largest producer of silver, and for many years has exported large quantities of low cost copper. The principal American mining companies operating in Peru are the American Smelting & Refining Co. and the Cerro de

Pasco Copper Corporation. The petroleum reserves, considered of great potential value, are being rapidly developed by American and other foreign capital. The Standard Oil Co. of New Jersey, through its subsidiaries, is active in this field. A wide range of climatic conditions results in diversified agricultural production, cotton and sugar being the two chief products. Most of the world's supply of alpaca wool comes from Peru.

It is estimated that more than \$325,000,000 of foreign capital is invested in Peru, of which about \$125,000,000 is American, and a like amount British. Exports of the Republic have exceeded imports in every year but two since 1892. In 1926 exports amounted to about \$88,044,000, comparing with imports of \$68,430,000. Approximately one-third of the Republic's foreign trade is with the United States.

#### PURPOSE OF THE LOAN

The proceeds of this loan will be used to the extent of approximately \$3,000,000 to retire outstanding indebtedness of the Republic, the balance being used for the purchase of machinery and plants for the manufacture of tobacco products and for construction of railroads and irrigation and sewage systems.

#### SECURITY

These bonds will be the direct obligation of the Republic of Peru and, after the retirement out of the proceeds of this loan of the \$3,000,000 indebtedness above mentioned, will be secured by a direct first lien on the gross revenues of the Government tobacco monopoly. The Republic will covenant to pay all the expenses of the tobacco monopoly from its other revenues.

These bonds are the first series of an authorized issue of £5,000,000 sterling or the equivalent in dollars, \$24,332,500, at part of exchange, to be secured equally and ratably by the pledge of the revenues above mentioned. Bonds of other series may not be issued to mature prior to the maturity of these bonds, nor unless the pledged revenues during the three years immediately preceding the proposed date of issue shall have averaged, and for the year immediately preceding shall have equaled, at least one and one-half times the maximum service charges on the bonds then outstanding and those proposed to be issued. The Republic will covenant that while any of the bonds remain outstanding it will not reduce, abolish, or in any manner impair the revenues pledged as security for the bonds.

Under a special law for the purpose, the Republic is to turn over the entire collection of the revenues from the tobacco monopoly to Caja de Depositos y Consignaciones, a Peruvian corporation, the capital stock of which is owned by the following banks: Banco del Peru y Londres, Banco Italiano, Banco Internacional del Peru, Banco Popular del Peru, and Banco Aleman Transatlantico. The board of directors of the caja is made up of the presidents and general managers of these banks. The Republic covenants that during the life of these bonds such board shall include a member designated by the fiscal agents. If the Republic withdraws the collection of such revenues from the caja or the caja for any reason ceases to collect them, the fiscal agents, in agreement with the Republic, may appoint another collection agency, all as more fully to be set forth in the trust agreement.

The trust agreement will provide that in the event of a default on these bonds the trustee may appoint a special agency to collect the revenues pledged for the service of the bonds, all as more fully therein to be provided.

The revenues available as security for these bonds are to be deposited weekly, as collected, with the representative of the fiscal agents in Peru for transmission to New York until the monthly service charge is covered.

#### REVENUES

Total receipts from the revenues pledged as security for these bonds have been as follows: 1924, \$3,931,594; 1925, \$4,162,660; 1926, \$4,744,214.

The revenues pledged to secure these bonds averaged annually for the three years from 1924 to 1926 inclusive, £P1,077,957; equivalent to \$4,279,490. This sum is more than three and one-half times the annual interest and sinking fund requirements on these bonds. For the year 1926 the revenues covered the annual charges almost four times. These revenue figures have been converted at the average rate of exchange for the three years from 1924 to 1926 inclusive, \$3.97 per Peruvian pound.

## CURRENCY AND FINANCES

During 1924 and 1925, the budgetary revenues totaled \$33,905,805 and \$33,864,210 respectively, while budgetary expenditures amounted to \$31,581,664 and \$34,920,591 respectively. Included in the expenditures for both years are sums invested for productive public purposes, which amounted in 1925 to \$2,208,000. The budget for 1926 balances at \$35,928,000. In the same year capital expenditures totaled about \$3,654,000 for investments in railroad, bridge, and highway construction, irrigation works, and similar projects.

Peru remodeled its banking system in 1922, following the pattern of the Federal reserve system in the United States. The Reserve Bank of Peru, in addition to its rediscounting functions, was given the sole responsibility for the regulation of the currency of the Republic. It is obliged to maintain a minimum gold reserve of 50 per cent (part of which may be held abroad) against its outstanding notes. As of December 31, 1926, the ratio of gold to paper currency in circulation was 80.54 per cent.

The national debt of Peru, as of December 31, 1926 was approximately \$73,481,000 or about \$12 per capita, of which about \$45,805,500 represented external debt.

## REDEMPTION AND SINKING FUND

The trust agreement will provide for a cumulative sinking fund sufficient to retire all these bonds by maturity through semiannual drawings at 105 and accrued interest.

The bonds will also be subject to redemption in whole or in part on any interest date, at the option of the Republic, at 105, and accrued interest, upon 60 days' notice.

All conversions herein made from Peruvian pounds into United States dollars have, unless otherwise stated, been made at \$3.68 per pound. Conversions from pounds sterling into dollars have been made at par of exchange.

M. G. MASIAS,  
Minister of Finance.

**\$12,000,000 STATE MORTGAGE BANK OF YUGOSLAVIA--SECURED 7 PER CENT SINKING FUND GOLD BONDS**

A substantial amount of this issue has been reserved for sale in Europe.

Dated April 1, 1927. Due April 1, 1957.

Interest payable April 1 and October 1. Principal and interest payable in United States gold coin of the present standard of weight and fineness, in New York City at the office of J. & W. Seligman & Co., fiscal agent, free from and without deduction for any Yugoslavian taxes. Coupon bearer bonds in interchangeable denominations of \$1,000 and \$500. Redeemable on any interest date, at the option of the bank, in whole or in part, at 100 and accrued interest.

A cumulative sinking fund will be provided calculated to retire all these bonds by maturity by purchase at not exceeding 100 and accrued interest of by semiannual drawings at 100 and accrued interest.

By the laws under which the bank is organized the Government of Yugoslavia guarantees the payment of the principal and interest of these bonds.

Messrs. Aron Alcalay, acting manager, and Dr. Rudolf Sardelic, director, have summarized their accompanying letter to us as follows:

*General.*—The State Mortgage Bank of Yugoslavia was founded in 1862 as a state institution for the management of public funds and in 1898 became a central mortgage bank under Government supervision. It is the largest mortgage bank in the country and the only one for whose obligations the Government is responsible. When the country was occupied by hostile armies during the World War, the Government paid the interest on all the bonds and notes issued by the bank, although sinking-fund payments were suspended. Its chief business is to make loans on farm properties and other real estate and to the Government and political subdivisions, all under restrictions imposed by law. It obtains funds for this purpose from deposits and from the issue of its own bonds and notes.

Yugoslavia is predominantly an agricultural country, 85 per cent of the population being farmers. Raising of livestock, forestry, and mining are important

industries. Much of its annual production is exported, and, with the great improvement in conditions on the continent during recent years, the country's foreign trade has increased 75 per cent since 1922. Exports have exceeded imports in each year after 1923.

In each of the past three fiscal years the revenues of the Government have exceeded its expenditures. The currency has been stable since the latter part of 1925.

*Security.*—The bonds will be the direct obligation of the bank and will be secured by the pledge of obligations, all of which are secured by mortgages on real estate, received by the bank against loans made by it. The bank will covenant to maintain the pledged obligations at an amount, calculated on a gold basis, equal to the principal amount of bonds at any time outstanding.

By the laws under which the bank is organized the Government of Yugoslavia guarantees the payment of the principal and interest of these bonds.

Every loan made by the bank, except those made to the State or to political subdivisions, is secured by first mortgages on farm property or other real estate and must not, under the law, exceed 50 per cent of the appraised value of the mortgaged real estate. In practice they have averaged only about 33 per cent of such appraised values. All loans to political subdivisions are secured either by mortgages on real estate or by the pledge of revenues or taxes and all loans to the State by the pledge of budget appropriations. The bank is not permitted by law to issue its own bonds and notes to an amount in excess of the outstanding principal amount of the loans held by it. The bank's losses on its loans have been less than three-thousandths of 1 per cent (.003 per cent) of all the loans it has made.

These bonds are offered when, as, and if issued and received by us, subject to prior sale and subject to the approval of our counsel, Messrs. Cravath, Henderson & de Gersdorf and associate counsel in Belgrade. Interim receipts or temporary bonds will be deliverable in the first instance.

Application will be made to list these bonds on the New York Stock Exchange.

#### STATE MORTGAGE BANK OF YUGOSLAVIA

STATE MORTGAGE BANK OF YUGOSLAVIA,  
*April 25, 1927.*

Messrs. J. & W. SELIGMAN & Co., DILLON, READ & Co.

DEAR SIRS: In connection with the issue and sale of the \$12,000,000 secured 7 per cent sinking fund gold bonds of the State Mortgage Bank of Yugoslavia, we are pleased to submit the following information:

#### GENERAL

The State Mortgage Bank of Yugoslavia was founded in 1862 as a State institution for the management of public funds and in 1898 became a central-mortgage bank under government supervision. It is the second largest bank in the country, the largest mortgage bank, and the only mortgage bank for whose obligations the government is responsible. When the country was occupied by hostile armies during the World War, the government paid the interest on all the bonds and notes issued by the bank, although sinking fund payments were suspended. Its chief business is to make loans on farm properties and other real estate and to the government and political subdivisions, all under restrictions imposed by law. It obtains funds for this purpose from deposits and from the issue of its own bonds and notes.

Management of the bank rests in a board of directors, composed of 11 members, 5 of whom are elected by parliament, 1 by the national bank, 2 by the commercial and agricultural council, 1 by the State council, and 1 by the University of Belgrade; the eleventh being the director general of the bank. There is also a board of supervision composed of 5 members, appointed by the minister of commerce and industry.

#### SECURITY

The bonds will be the direct obligation of the bank and will be secured by the pledge of obligations, all of which are secured by mortgages on real estate, received by the bank and against loans made by it. The bank will covenant

to maintain the pledged obligations at an amount, calculated on a gold basis, equal to the principal amount of bonds at any time outstanding.

By the laws under which the bank is organized, the Government of Yugoslavia guarantees the payment of the principal and interest of these bonds.

Every loan made by the bank, except any made to the State or to political subdivisions, is secured by first mortgages on farm property or other real estate and must not, under the law, exceed 50 per cent of the appraised value of the mortgaged real estate. In practice they have averaged only about 33 per cent of such appraised values. All loans to political subdivisions are secured either by mortgages on real estate or by the pledge of revenues or taxes and all loans to the State by the pledge of budget appropriations. If in any case the security depreciates in value the bank may declare the loan in question due and payable. The bank is not permitted by law to issue its own bonds and notes to an amount in excess of the outstanding principal amount of the loans held by it. The bank's losses on its loans have been less than three thousandths of 1 per cent of all the loans it has made.

The total assets of the bank, as of April 1, 1927, adjusted to give effect to this financing were \$38,866,48. On April 1, 1927, the bank had outstanding \$20,639,595 of loans made by it, including \$2,455,465 of loans to the Government and political subdivisions, and held deposits of \$14,067,071.

The bank has outstanding two post-war issues of franc bonds in the Swiss market, totaling \$4,401,951 at par of exchange, which are currently quoted on the exchanges of Zurich and Basel at prices which yield from 7.38 per cent to 7.46 per cent to maturity. Prior to the World War the bank contracted loans in the French market where they sold to yield as low as 4.70 per cent. Of these bonds, 57,969,500 French francs are now outstanding. Interest and sinking-fund payments are being made in French currency, pending the negotiation of a settlement with the French bondholders who claim payment in gold francs. By law passed in 1922, the Yugoslav Government is obliged to pay any amounts required for such settlement beyond the amounts being paid currently by the bank.

#### YUGOSLAVIA

Yugoslavia has an area of 96,134 square miles, more than one and one-half times the area of Austria and Hungary combined. It has an estimated population of 13,000,000, equal to a density of 135 inhabitants per square mile. Approximately 85 per cent of these people are farmers, which is an important factor in the stability of the country. The country lies for the most part in the fertile valleys of the Danube, Morava, and Save Rivers.

Yugoslavia leads all European countries in the production of corn, and has an important livestock industry. Fruit raising, forestry, and mining are also important industries. One of the most essential requirements of the country is funds to repair the destruction of capital during the World War and to facilitate development of its agriculture and industries, to which purpose the proceeds of the present loan will be largely devoted.

Trade relations between Yugoslavia and neighboring countries have improved greatly in recent years. The numerous commercial treaties with the surrounding States and with England and other foreign countries have stimulated Yugoslavia's international trade, which has shown an increase since 1922 of 75 per cent. Exports have exceeded imports in each year after 1923.

The public debt of Yugoslavia, both internal and external, converting the latter at par of exchange, totals about \$562,000,000. In addition there are war debts due to Great Britain and France of £33,000,000 and Frs.1,700,000,000, respectively, which are expected to be funded in the near future. Prior to the World War, Serbian securities were highly regarded by European investors and sold on the Paris Bourse in 1911 to yield as low as 4.43 per cent.

The balanced budget of the past three fiscal years and the surplus of exports during the last three, have served to minimize fluctuations in the currency. The dinar has been stable at 0.0177 since the latter part of 1925, after a steady rise from \$0.0100 in 1923.

Revenues of the Government of Yugoslavia have exceeded expenditures in each of the past three fiscal years. In each period the surplus has, for the most part, been expended in construction of public works. The actual figures have been as follows:

Fiscal year ending Mar. 31—	Revenues	Expenditures	Surplus
1925.....	\$153,303,756	\$144,937,620	\$8,366,136
1926.....	208,789,650	203,710,415	5,079,235
1927 <sup>1</sup> .....	91,638,315	83,568,330	8,071,985

<sup>1</sup> Figures for first 6 months only.

These figures have been converted at the following average rates of exchange: For 1925, \$0.0174, and for 1926 and 1927, \$0.0177 per dinar. Elsewhere in this circular conversions of dinars into United States dollars have been made at the current rate of exchange of \$0.0177 per dinar. The dinar at par of exchange is equivalent to \$0.1930.

Very truly yours,

RUDOLF SARDELIC,  
*Director.*  
ABON ALCALAY,  
*Acting Manager.*

**\$1,500,000 PROVINCE OF CALLAO, PERU, GUARANTEED AND SECURED SINKING FUND  
7½ PER CENT GOLD BONDS**

The Republic of Peru is guarantor of, and joint and several obligator with the Province on these bonds.

Dated January 1, 1927. Due January 1, 1944.

Interest payable January 1 and July 1. Principal and interest payable in United States gold of the present standard of weight and fineness, in New York City at the office of J. & W. Seligman & Co., fiscal agents, free from any Peruvian taxes present or future. Coupon bearer bonds in interchangeable denominations of \$1,000 and \$500, redeemable on any interest date upon prior notice in whole or in part, at 107½ and interest. Central Union Trust Co. of New York, trustee.

A cumulative sinking fund is provided, calculated to retire at least \$1,465,000 principal amount of these bonds before maturity, operating by purchase in the market up to 107½ and accrued interest or, if bonds are not so obtainable, by drawings at 107½ and accrued interest.

Dr. Francisco Quiroz Vega, Director General of Ministry of Finance of Republic of Peru, Mr. Eduardo Freundt and Mr. O. Villamonte, syndics of provincial council of Callao, have summarized their accompanying letter as follows:

*General.*—The Province of Callao includes the city of Callao, which is the principal port and second largest city of Peru, and the port and shipping center for Lima, the capital and the largest city, located only 8 miles distant. The Province has a population of about 60,000, and the metropolitan district including and surrounding Callao and Lima has a population of about 250,000. In 1925 over 60 per cent of the imports and more than 27 per cent of the exports of Peru, including the copper, silver, and vanadium from the Cerro de Pasco mining district, passed through the port of Callao. It is a regular port of call for 11 steamship lines; about 1,500 ships enter and clear the harbor annually.

The Republic of Peru is the third largest country in South America, and has a population estimated at about 6,000,000. The principal industries of Peru are mining and agriculture. The chief mineral products are petroleum, copper, silver, gold, vanadium, and coal and the principal agricultural products are cotton, sugar cane, coffee, cocoa, wheat, rice, tobacco, olives, and maize. Peru is one of the largest sources of low-cost copper and the third largest producer of silver in the world. It has extensive petroleum reserves which are being developed on a large scale and it now ranks as the second largest producer of oil in South America. It is estimated that more than \$300,000,000 of foreign capital is invested in the country.

Since 1892 exports of the Republic have exceeded imports in every year but two. In 1926 exports amount to \$88,044,000 as compared with imports of \$68,430,000.

*Security.*—These bonds will be the direct obligation of the Province of Callao and by a law of authorization, dated April 13, 1927, the Republic of Peru has constituted itself guarantor of, and joint and several obligor with the Province

on the bonds. They will be specifically secured by a first charge on all the ordinary revenues and taxes of the Province at present in effect, and by the pledge of any revenues, taxes, or imposts of the Province hereafter created until the total amount of all pledged revenues, calculated upon the collections of the preceding calendar year shall be equivalent in Peruvian pounds at the then rate of exchange to \$350,000 annually. As further security the Republic of Peru obligates itself to devote annually for the service of the bonds 24,000 Peruvian pounds (about \$88,320 at the present rate of exchange) in equal monthly payments from the general revenues of the Republic and to include this amount in its general budget during the life of the bonds. In addition, the bonds will be secured by a first mortgage on certain real estate owned by the Province in the city of Callao.

A reserve fund equivalent to six months' service charges on the bonds is to be deposited with the fiscal agent, to be held on deposit as security for the service of these bonds.

The loan contract provides that the Government of Peru, which has charge of the collection of all revenues of the Province pledged as security for these bonds, shall deposit as collected the entire proceeds of the pledged revenues of the Province during each month with the representative of the fiscal agent in Peru until the monthly proportion of the service of these bonds shall have been covered, this sum to include the monthly payments to be made by the Republic on its own account. The loan service will be remitted quarterly to the fiscal agent in New York.

*Revenues.*—Total receipts from the revenues specifically pledged as security for these bonds for the five years from 1922 to 1926 inclusive, averaged \$258,000 annually which, together with the annual payments of 24,000 Peruvian pounds provided for the service of the bonds out of the general revenues of the Republic of Peru, is equivalent to approximately \$346,000 or over 2 times the annual interest and sinking fund requirements of \$165,000 on these bonds. For 1926, the available revenues, on a similar basis, were equivalent to 2.4 times such requirements.

*Purpose of the loan.*—The proceeds of this loan will be used in part to retire outstanding debts amounting to approximately \$192,500, after which these bonds will constitute the only funded debt of the Province, external or internal. The remainder of the proceeds will be devoted to specified municipal purposes, including water supply, drainage, housing, street paving, and sanitary improvements.

All conversions herein, except where otherwise noted, from Peruvian pounds into United States dollars are made at the current rate of exchange of \$3.85 per Peruvian pound.

These bonds are offered when, as and if issued and received by us, subject to prior sale and approval of counsel, Messrs. Curtis, Mallet-Prevost, Colt & Mosle. Interim receipts or temporary bonds will be deliverable in the first instance. Price 99 and interest yielding 7.60 per cent.

APRIL 25, 1927.

MESSRS. J. & W. SELIGMAN & Co.,  
HUNTER, DULIN & Co.,  
ALVIN H. FRANK & Co.

DEAR SIR: In connection with the offering of \$1,500,000 Province of Callao, Peru, guaranteed and secured sinking fund 7½ per cent gold bonds, we are pleased to submit the following information:

#### GENERAL

The Province of Callao includes the city of Callao, which is the principal port and second largest city of Peru and the port and shipping center for Lima, the capital and the largest city, located only 8 miles distant. The Province has a population of about 60,000, while the metropolitan district surrounding and including Callao and Lima has a population of about 250,000. The taxable valuation of all real property in the Province is about \$25,000,000. Its industrial establishments comprise foundries, flour mills, distillery, and lumber, furniture and miscellaneous plants.

In 1925, over 60 per cent of the imports and more than 27 per cent of the exports of Peru, including the copper, silver and vanadium from the Cerro de Pasco mining district, passed through the port of Callao. It has an excellent harbor with facilities for the accommodation of large steamers and is a regular

port of call for eleven steamship lines. About 1,500 ships enter and clear the harbor annually. The Panama Canal, which reduced the shipping distance from Callao to New York from over 9,000 to less than 3,500 nautical miles, has been a simulating factor in the continuing growth and development of Callao as a port and a commercial and industrial center.

The Republic of Peru, situated on the west coast of South America, has an area of about 550,000 square miles, or larger than France, Italy and Germany combined, and is the third largest country in South America. The population is estimated at 6,000,000.

The principal industries of Peru are mining and agriculture. The chief mineral products are petroleum, copper, silver, gold, vanadium and coal. Peru is one of the largest sources of low cost copper, and the third largest producer of silver in the world. It has extensive petroleum reserves which are being developed on a large scale under the leadership of interests controlled by the Standard Oil Co. of New Jersey, and it now ranks as the second largest oil-producing country in South America. The principal agricultural products are cotton, sugarcane, coffee, cocoa, wheat, rice, tobacco, olives, and maize. The production of both cotton and sugarcane, the two most important products, has increased very materially in recent years. Most of the world's production of alpaca wool comes from Peru. Manufacturing activity has increased notably in Peru in recent years. In addition to smelters for the treatment of copper and other mineral ores, and oil-refining plants for the treatment of the increasing production of crude petroleum, there are a large number of factories engaged in the manufacture of sugar, textiles, leather, shoes, glass, cement, paper, and miscellaneous products.

The Province covenants that while any of these bonds remain outstanding all of the revenues pledged as security will continue in effect and that it will make no change, modification or alteration in these revenues which might cause a reduction in the total amount, calculated upon the collections of the preceding calendar year, below the equivalent at the then rate of exchange of \$350,000 annually.

It is estimated that more than \$300,000,000 of foreign capital is invested in the country, of which about \$125,000,000 is American capital, and a like amount British. Standard Oil of New Jersey (through its subsidiaries), Cerro de Pasco Copper Corporation, American Smelting & Refining Co., and Vanadium Corporation of America are among the American corporations having large interests in Peru.

Since 1892 exports of the Republic have exceeded imports in every year but two. In 1926 exports totalled about \$88,044,000 as compared with imports of about \$68,430,000. About one-third of the total foreign trade is with the United States.

#### SECURITY

These bonds will be the direct obligation of the Province of Callao and by a law of authorization, dated April 13, 1927, the Republic of Peru has constituted itself guarantor of, and joint and several obligor with the Province on the bonds. They will be specifically secured by a first charge on all of the ordinary revenues and taxes of the province at present in effect, and by the pedge of any revenues, taxes, or imposts of the province hereafter created until the total amount of all pledged revenues, calculated upon the collections of the preceding calendar year, shall be equivalent in Peruvian pounds at the then rate of exchange to \$350,000 annually. As further security the Republic of Peru obligates itself to devote annually for the service of these bonds 24,000 Peruvian pounds (about \$88,320 at the present rate of exchange) in equal monthly payments from the general revenues of the Republic and to include this amount in its general budget during the life of the bonds. In addition, these bonds will be secured by a first mortgage on certain real estate owned by the Province in the city of Callao, including the municipal slaughterhouse, market and theater.

The loan contract provides that the Government of Peru, which has charge of the collection of all revenues of the province pledged as security for these bonds, shall deposit, as collected, the entire proceeds of the pledged revenues of the province during each month with the representative of the fiscal agent in Peru until the monthly proportion of the service of these bonds shall have been covered, this sum to include the monthly payments to be made by the Republic on its own account. The loan service so deposited will be remitted

quarterly to the fiscal agent in New York to be held for the payment of the semiannual interest and sinking fund on the bonds.

A reserve fund equivalent to six months' service charges on the bonds is to be deposited with the fiscal agent, to be held on deposit as security for the service of these bonds.

In the event of a default on these bonds, the fiscal agent may appoint a special agency to collect the revenues pledged for the service of these bonds, all as more fully provided in the loan contract.

#### REVENUES

Total receipts from the revenues specifically pledged as security for these bonds have been as follows:

1922.....	\$215,064
1923.....	232,444
1924.....	250,718
1925.....	274,028
1926.....	316,866

These revenues for the five years from 1922 to 1926 inclusive, averaged \$258,000 annually which, together with the annual payments of 24,000 Peruvian pounds provided for the service of these bonds out of the general revenues of the Republic of Peru, is equivalent to approximately \$346,000 or over two times the annual interest and sinking fund requirements of \$165,000 on these bonds. For 1926, the available revenues, on a similar basis, were equivalent to two and four-tenths times such requirements.

#### PURPOSE OF THE LOAN

The proceeds of this loan will be used in part to retire outstanding debts of the Province, amounting to approximately \$192,500, after which these bonds will constitute the only funded debt, external or internal, of the Province. The remainder of the proceeds will be devoted to specified municipal purposes, including water supply, drainage, housing, street paving, and sanitary improvements.

#### FINANCES AND DEBT OF THE REPUBLIC OF PERU

During 1924 and 1925, the budgetary revenues of the Republic of Peru totalled \$33,905,805 and \$33,864,210, respectively, while budgetary expenditures amounted to \$31,581,664 and \$34,920,591, respectively. Included in the expenditures for both years are sums invested for productive public purposes, which amounted in 1925 to \$2,208,000. The budget for 1926 balances at \$35,928,000. In the same year capital expenditures totalled about \$8,654,000 for investments in railroad, bridge, and highway construction, irrigation works, and similar projects.

The banking system of Peru was remodeled in 1922 along the lines of the Federal reserve system in the United States. The reserve bank of Peru (banco de reserva del Peru) was created and, in addition to its rediscounting privileges, was invested with the sole responsibility for the regulation of the currency of the Republic. It is obliged to maintain a minimum gold reserve of 50 per cent (part of which may be held abroad) against its outstanding notes. As of December 31, 1926, the ratio of gold to paper currency in circulation was 80.54 per cent.

The national debt of Peru, as of December 31, 1926, was approximately \$73,481,000, or about \$12 per capita, of which about \$45,805,500 represented external debt.

All conversions herein, except where otherwise noted, from Peruvian pounds into United States dollars, are made at the current rate of exchange of about \$3.68 per Peruvian pound. Conversions from pounds sterling into dollars have been made at par of exchange.

Dr. FRANCISCO QUIROZ VEGA,  
*Director General of Ministry of Finance of Republic of Peru.*  
 Mr. EDUARDO FREUNDT AND Mr. O. VILLAMONTE,  
*Syndics of Provincial Council of Callao.*

**\$1,500,000 DEPARTMENT OF CAUCA VALLEY, REPUBLIC OF COLOMBIA 20-YEAR 7½  
PER CENT SECURED SINKING FUND GOLD BONDS**

Dated October 1, 1926. Due October 1, 1946.

Authorized, \$4,000,000. Retired by sinking fund, \$28,000. To be outstanding, including this issue, \$3,972,000.

The Department of Cauca Valley, fronting on the Pacific Ocean, occupies an advantageous trade position within the Republic of Colombia.

It possesses the port of Buenaventura, located within 340 miles of the Panama Canal, the only deep-sea port of Colombia on the Pacific. The dock facilities, which are owned by the National Government, are capable of accommodating ocean-going steamers at lowest tide and have direct rail connection dockside permitting freight to be transferred directly from ship to railway cars.

Over 20 per cent of the entire foreign trade of Colombia, and one-third of all the coffee exported from the country, passes through this port.

The improved facilities at Buenaventura, together with the extension and improvement of the transportation system, are stimulating the development of the Cauca Valley, and promoting a steady increase in its population, which is now estimated at 325,000.

Cauca Valley contains more railroad mileage than any other Department in the Republic and nearly one-fourth of the entire railroad mileage of the country.

In addition to railroads, the Department has good water transportation, the Cauca River being navigable throughout the entire length of the Department.

The Pacific Railway is being extended eastward with the object eventually of linking up Buenaventura with Bogota, the capital of Colombia, a development which will stimulate the further growth of Cauca Valley. The first section of this railroad was recently completed.

Further extension of its highway system is one of the major policies of the Department. In 1923 it built 93 kilometers of new highways and 25 new bridges, in addition to improving and repairing an additional 330 kilometers of highways.

These additional \$1,500,000 of bonds are being issued principally further to extend and improve the highway and railway system throughout the Department.

The Department raises a wide diversity of agricultural products, and has large areas of good pasture land. Sugar, coffee, bananas, cacao, and other products are raised in large quantities.

Call, the capital of the Department, located at the junction of the Pacific Railway and Cauca River, is considered one of the most advanced cities in the Republic, and is the distributing center for a large part of the adjacent territory.

In the neighborhood of Cali, there are large coal deposits, readily accessible to markets, which have great possibilities of future development, in view of their advantageous location in such close proximity to the Panama Canal and Pacific Coast regions where there is a large demand for coal for shipping, railroad, and other purposes.

The bonds constitute the only funded debt of the department, and will be outstanding at the low rate of approximately \$13 per capita.

The bonds will be secured by a first charge and lien on all the receipts from the tobacco tax and on 80 per cent of the receipts from the slaughter and liquor taxes or revenues, constituting the principal items of income of the department. Receipts from these sources have shown a consistent increase over a period of several years.

The total receipts from the said revenues or taxes for the seven years ended June 30, 1926, averaged \$1,819,952 annually, of which the proportion securing these bonds is equivalent to approximately four times the combined annual interest and sinking fund requirements of \$396,130 on these bonds. For the fiscal year ended June 30, 1926, the revenues or taxes totaled \$2,775,047, of which the proportion securing these bonds is equivalent to more than six and one-tenth times the annual interest and sinking fund requirements on these bonds, and for the 10 months ended April 30, 1927, the available revenues or taxes were at the annual rate of seven and five-tenths times such requirements.

The department has agreed that the respective proportions of the total receipts from the said revenues or taxes securing these bonds shall be deposited as collected with the branch of the Royal Bank of Canada at Cali, or such other bank as may be agreed upon by the department and the fiscal agents, which shall remit monthly or oftener the revenues so deposited until the amount necessary to meet the next ensuing semiannual interest and

sinking fund payments on these bonds is on deposit with the fiscal agents. A sum equivalent to 5 per cent of the total amount of the bonds at any time issued, which is in excess of six months' service charges on the bonds presently to be outstanding, will remain on deposit with the fiscal agents during the life of the bonds.

During the nine fiscal years ended June 30, 1926, the department showed a surplus of receipts over expenditures.

The trust agreement provides for a sinking fund sufficient to retire all the bonds issued by lot at 103 and accrued interest. This provision gives an attractive speculative feature to the issue since bonds called for redemption during the first few years will give an unusually high yield.

Thus, although the approximate yield to final redemption is 7.77 per cent, the average yield is 7.95 per cent, and the yield on the bonds redeemed at the next sinking fund date is 17.85 per cent, all yields being calculated as from April 1, 1927. Table of yields to each redemption date will be found on the reverse hereof.

The Republic of Colombia, of which Cauca Valley forms a political subdivision, has enjoyed a long period of stable government. Its debt is outstanding at a low rate per capita; its banking system is modeled along the lines of our own Federal reserve system; and its monetary unit, the dollar or peso, has been above or approximately at par of exchange for the past few years. Colombia is the second largest coffee producer in the world. It has a large and growing foreign trade, and has shown an excess of exports over imports in 18 out of the past 21 years.

*Approximate yield to various redemption dates, based on offering price of 98 and accrued interest, and payment of called bonds at 103 and interest*

[Yield calculated as from April 1, 1927]

	Per cent		Per cent
Oct. 1, 1927	17.85	Oct. 1, 1937	7.97
Apr. 1, 1928	12.60	Apr. 1, 1938	7.95
Oct. 1, 1928	10.87	Oct. 1, 1938	7.93
Apr. 1, 1929	10.01	Apr. 1, 1939	7.91
Oct. 1, 1929	9.50	Oct. 1, 1939	7.90
Apr. 1, 1930	9.16	Apr. 1, 1940	7.88
Oct. 1, 1930	8.92	Oct. 1, 1940	7.87
Apr. 1, 1931	8.74	Apr. 1, 1941	7.86
Oct. 1, 1931	8.60	Oct. 1, 1941	7.85
Apr. 1, 1932	8.49	Apr. 1, 1942	7.83
Oct. 1, 1932	8.39	Oct. 1, 1942	7.82
Apr. 1, 1933	8.32	Apr. 1, 1943	7.82
Oct. 1, 1933	8.26	Oct. 1, 1943	7.81
Apr. 1, 1934	8.20	Apr. 1, 1944	7.80
Oct. 1, 1934	8.15	Oct. 1, 1944	7.80
Apr. 1, 1935	8.12	Apr. 1, 1945	7.79
Oct. 1, 1935	8.08	Oct. 1, 1945	7.78
Apr. 1, 1936	8.05	Apr. 1, 1946	7.77
Oct. 1, 1936	8.02	Oct. 1, 1946	7.77
Apr. 1, 1937	8.00	Average yield	7.95

\$8,000,000 REPUBLIC OF COSTA RICA EXTERNAL SECURED SINKING FUND 7 PER CENT GOLD BONDS, 1926

REPUBLIC OF COSTA RICA

*Location.*—Costa Rica adjoins Panama on the north and extends from the Atlantic to the Pacific, with a port on each coast. Proximity to the canal is advantageous from a trade standpoint.

*Population.*—The population of approximately 600,000, is predominantly white, and mostly of European extraction.

*Physical characteristics.*—More than one-half the country lies between 2,000 and 6,000 feet above sea level. This elevation makes the climate generally temperate and healthful, although the country is located in the tropical zone. As a result of the climate and the preponderance of people of European descent, the population is energetic and progressive.

*Principal products.*—Unusual fertility of soil, favorable climate, and abundant rainfall have made the country very rich agriculturally. It is one of the largest producers of bananas and coffee. The coffee is of excellent quality and more than 75 per cent of the entire crop finds a ready market in England. Large areas of agricultural land can be developed by further extension of highways and railroads.

*Communications.*—A railroad crosses the country from east to west, linking up the ports on both coasts, and a contract has been concluded for the electrification of the line from San Jose, the capital, to Puntarenas on the Pacific Coast. Costa Rica has large water power resources, which it is estimated can be developed to produce electrical energy at a low cost, facilitating industrial development.

The port of Limon, on the Caribbean Sea, is the regular port of call for the steamers of the United Fruit Co., while Puntarenas on the Pacific Coast is a port of call for the Pacific Mail Steamship Co.

*Investment of foreign capital.*—According to recent estimates, over \$60,000,000 of foreign capital is invested in the country, distributed approximately as follows: United States, \$28,000,000; Great Britain, \$26,000,000; France, \$4,200,000; Germany, \$2,500,000. The United Fruit Co. owns a large acreage of improved land devoted to the cultivation of bananas and cacao, in addition to reserve holdings of undeveloped land, railroads, and other properties, the total investment being estimated at \$15,000,000.

*Political stability.*—The Government of the Republic is on a firm, stable, and businesslike foundation. During the last five years, under the presidency of Don Ricardo Jimenez, the country has accomplished such substantial reforms as the stabilization of the currency, the establishment of the Caja de Conversion, which is a separate department concerned with maintaining the currency system in a sound condition, and the inauguration of a system of audit and control of Government expenditure which has produced noteworthy economies in public expenditures.

*Currency.*—In the year 1924, Costa Rica stabilized its monetary unit, the colon, on a gold basis at the rate of 4 colones to one United States dollar. At the same time, it instituted a new method of control over governmental expenditures. The results of both of these measures have been highly beneficial. Since stabilization, the colon has fluctuated narrowly around its stabilized value.

*Government finance.*—Revenues of the Republic have exceeded expenditures by a substantial margin in each of the past four fiscal years.

*Increase in public revenues.*—Stabilization has stimulated trade and promoted general prosperity in the country. This increased prosperity is reflected in the growth of the principal revenues of the Republic, receipts from customs duties having increased from 8,783,631 colones in 1922 to 13,419,820 colones in 1925, and receipts from the monopoly of alcohol and liquors, from 3,643,249 to 4,071,330 colones in the same period, while the revenues reported for the first 10 months of 1926, after allowing for the usual seasonal variation, indicate increases in the customs revenues and the liquor tax of 0.5 per cent and 9 per cent, respectively, over the averages of the past four years.

*Foreign trade.*—Exports have exceeded imports in every year but one since 1913, and in 1925 were 65,664,382 colones, as compared with imports of 55,283,776 colones. Two food staples, coffee and bananas, constitute the principal exports, which impart stability to economic conditions in the country.

Most of the foreign trade is with the United States and England, which take over 88 per cent of the exports, and furnish over 69 per cent of the imports of the Republic. Ports on both the Atlantic and Pacific coasts give the country easy access to the markets of the world.

*Credit standing.*—Coincident with the recurring surpluses in the budget and in the foreign trade balance and with the maintenance of the colon at its stabilized value of four to the dollar, the credit status of Costa Rica has undergone marked improvement. This is reflected by the advancing quotations on the London Stock Exchange for its 5 per cent external sterling loan bonds of 1911-1938. The Republic has met the service charges on its sterling loan promptly since its issuance in 1911.

*Agreement with French bondholders.*—Costa Rica has regularly paid the current interest on the external franc loan in French currency. After French currency had depreciated severely following the War, the French bondholders

claimed payment of interest in gold francs instead of currency. The Republic claimed the right to continue to make payments in French currency as it had always done. This disagreement was adjusted by an arrangement made between the Republic and the National Association of French Bondholders providing for the retirement and payment of the loan; then outstanding in the amount of 32,762,000 francs, on the basis of \$50 per bond of 500 francs plus accrued interest. This arrangement represented an agreement on the part of the Republic to pay the bondholders at the rate of 10 cents (United States currency) for each French franc, whereas the market quotation of the franc at the time was approximately 5 cents. Under this agreement, made in March, 1925, there had been presented for redemption during the 18 months up to October 1, 1926, over 23,000,000 francs of these bonds, leaving outstanding less than 9,000,000 francs, principal amount, for the payment of which the Government has the necessary funds on deposit.

*Present loan primarily a refunding operation.*—The external secured sinking fund 7 per cent gold bonds of 1926, which the Republic is now issuing, will be used to retire internal indebtedness of the Republic, amounting to approximately \$5,900,000, effecting an appreciable reduction in interest charges and releasing domestic capital for the general development of the country. The Republic plans to use the remainder of the proceeds for productive public purposes.

*Debt.*—The external debt, in addition to these bonds, consists of a 5 per cent external sterling loan of 1911, of which £1,763,760 is at present outstanding, and of a 5 per cent external franc loan of 1911, of which less than 9,000,000 francs is at present outstanding. The latter is being steadily redeemed in accordance with the agreement above mentioned. The sterling loan is being redeemed through cumulative sinking-fund purchases. The issuance of the present loan will add only about \$2,000,000 to the total indebtedness of the Republic, which will then be only \$17,500,000.

*Security.*—The present issue will be secured by a lien on the customs revenues subject only to the prior lien of the sterling loan involving an annual service charge of \$583,200, and will also be secured by a lien on the revenue from the alcohol and liquor monopoly, subject only, after completion of this financing, to the prior lien of the external franc loan of 1911, upon which the maximum annual service charge would not exceed \$113,000. After the retirement of the less than 9,000,000 francs principal amount of this external franc loan now outstanding, the money for which is already on deposit, the bonds of this issue will become an absolute first lien and charge upon the revenues from the alcohol and liquor monopoly which alone, in 1925, were nearly two times the annual service of these bonds.

Customs duties are regarded as the best form of revenues which a country has to offer as security for its obligations. Latin American countries particularly are dependent to a large extent on foreign trade for their prosperity, and the customs duties resulting from this foreign trade are ordinarily the most important and dependable sources of income. The record of bonds secured by customs liens is a highly favorable one. The experience of the past few years points to a continuing growth in the foreign trade of Costa Rica, with a resultant increase in the yield from the customs duties pledged as security for these bonds.

*Collection of pledged revenues.*—The trust agreement provides that the revenues securing these bonds shall be deposited daily with a representative of the trustee in Costa Rica for prompt remittance to the trustee in New York until the monthly loan service has been covered. In the event of default, the trustee may, subject to the rights of the holders of any outstanding bonds with a prior lien on the revenues pledged, appoint a special agency with the sole right to collect the pledged revenues securing these bonds.

*Reserve fund.*—In addition to the monthly service of these bonds, there will be similarly deposited and paid each month for two years a sum which at the end of that period will aggregate three months' service charges on these bonds, said sum to remain on deposit with the fiscal agents in New York as additional security.

*Arbitration.*—The trust agreement provides for referring any disagreement between the Republic and the trustee to a justice of the Supreme Court of the United States as the sole arbitrator.

*General.*—Continued political stability and increasing internal prosperity, with a resultant access to adequate amounts of foreign capital on reasonable terms, promise an orderly and substantial development of the valuable natural resources of the country.

**\$12,000,000 DEPARTMENT OF CUNDINAMARCA, REPUBLIC OF COLOMBIA, EXTERNAL  
SECURED 6½ PER CENT SINKING-FUND GOLD BONDS, 1928**

Dated May 1, 1928. Due November 1, 1959.

Interest payable May 1 and November 1. Principal and interest payable in United States gold coin of the standard of weight and fineness existing May 1, 1928, in New York City, at the office of J. & W. Seligman & Co., fiscal agent, without deduction for any Colombian taxes. Coupon-bearer bonds in denomination of \$1,000, redeemable as a whole or in part at the option of the Department on any interest date at their principal amount and accrued interest.

The bonds will have the benefit of a cumulative sinking fund calculated to retire all the bonds by maturity by semiannual drawings by lot at their principal amount and accrued interest.

Central Union Trust Co. of New York, trustee.

His excellency, Señor don Ruperto Melo, governor of the Department of Cundinamarca of the Republic of Colombia, has furnished us with the following information:

*General.*—The Department of Cundinamarca, centrally located in the Republic of Colombia, has an area of approximately 10,810 square miles. Its population is the largest of any department in the Republic, being now officially estimated at 1,250,000. The city of Bogota, the capital of the Republic and its largest city, is also the capital of Cundinamarca. Colombia is the world's second largest producer of coffee and Cundinamarca is one of its chief coffee-producing districts. Products of the Department other than coffee include cattle, wheat, cocoa, salt, and sulphites. Cundinamarca contains the richest known iron and coal deposits in Colombia.

*Purpose.*—The proceeds of these bonds will be applied to the extent of approximately \$3,500,000 to the retirement of the Department's entire outstanding external debt, including short-term bank loans. The greater part of the balance of the proceeds will be used for the extension of the Cundinamarca Railway, highway construction, and other public works.

*Security.*—These bonds will be the direct obligation of the Department and after the above-mentioned retirement of outstanding external debt will be secured by a direct first lien and charge upon the gross revenues of the Department from its monopoly on distilled liquors and from its taxes and duties on fermented liquors, foreign liquors, slaughterhouses, and tobacco, after deducting all municipal participations in such revenues.

The Department may from time to time issue additional bonds of other series of the loan subject to restrictions set forth in the loan agreement and may pledge additional revenues thereunder.

The loan agreement provides in substance that all times the average, for the two and one-half years ending on the next preceding June 30 or December 31, as the case may be, of the pledged revenues, calculated on a gold basis, after deducting municipal participations and all costs and expenses of collection, administration, and production, and the maximum annual amount required for the service of all prior liens and charges shall be at least two times the maximum annual amount required for the service of all the bonds outstanding under the loan agreement, and if such average falls below that amount the Department will pledge such additional revenues satisfactory to the trustee as may be necessary to make up the deficiency, all as more fully set forth in the loan agreement.

In accordance with article 42 of the fiscal code of Colombia adopted in 1912, the loan agreement contains provisions confining to the Colombian courts all proceedings or other action for the enforcement of the obligations of the Department.

*Revenues.*—The gross revenues, after deducting municipal participations, pledged as security for these bonds for the two and one-half years ended December 31, 1927, have been as follows (in pesos, one peso being equal to \$0.9733 at par of exchange):

Year ended June 30, 1928.....	2,912,886.38
Year ended June 30, 1927.....	3,392,683.59
6 months ended Dec. 31, 1927.....	1,976,693.73

The above revenues have averaged annually for the above period 3.58 times the total annual service charges on the present issue of bonds.

*Finances.*—Upon completion of this financing these bonds will constitute the only external debt of the Department. On December 31, 1927, the Department

had no internal funded debt and its floating debt was 798,608.67 pesos. Total revenues of the Department have increased substantially during recent years, reflecting the steady development of the Department and the creation of new sources of revenue.

All conversion of pesos into dollars has been made at parity of exchange (1 peso=\$0.9733 cents).

These bonds are offered when, as, and if issued and received by us, subject to prior sale, and subject to the approval of our counsel, Messrs. Cravath, de Gersdorff, Swaine & Wood, of New York, and associate Colombian counsel. Delivery of temporary bonds or interim certificates is expected to be made on or about June 27, 1928.

Application will be made in due course to list these bonds on the New York Stock Exchange.

Price 93½ and accrued interest. Average yield 7.14 per cent.

J. & W. Seligman & Co.

DEPARTMENT OF CUNDINAMARCA,  
*Republic of Colombia, June 6, 1928.*

MESSRS. J. & W. SELIGMAN & CO.,  
MESSRS. E. H. ROLLINS & SONS.

DEAR SIR: In connection with the issue and sale to you by the department of Cundinamarca of \$12,000,000 principal amount of its external secured 6½ per cent sinking fund gold bonds, 1928, I am pleased to submit the following information:

#### PURPOSE OF THE LOAN

These bonds will constitute the first series of the Department of Cundinamarca external secured sinking fund loan which has been authorized for the purpose, among others, of refunding the entire external debt of the department. The proceeds of these bonds will be used for (1) the retirement by redemption of approximately \$3,000,000 principal amount outstanding external 7 per cent secured sinking fund gold bonds series A, (2) the retirement of \$500,000 external short term bank loan, (3) the extension of the Cundinamarca Railway, (4) the installation of a telephone system to connect the various cities of the department and (5) construction of highways and other public works.

#### SECURITY

These bonds will be the direct obligation of the department and will be secured after the retirement of the outstanding external debt by a direct first lien and charge upon the gross revenue of the department from its monopoly on distilled liquors and from its taxes and duties on fermented liquors, foreign liquors, slaughterhouses, and tobacco, after deducting all municipal participations in such revenues.

In accordance with article 42 of the fiscal code of Colombia adopted in 1912, the loan agreement contains provisions confining to the Colombian courts all proceedings or other action for the enforcement of the obligations of the department.

The loan agreement provides in substance:

(1) That at all times the average, for the two and one-half years ending on the next preceding June 30 or December 31 as the case may be, of the pledged revenues, calculated on a gold basis, after deducting municipal participations and all costs and expenses of collection, administration, and production and the maximum annual amount required for the service of all prior liens and charges shall be at least two times the maximum annual amount required for the service of all the bonds outstanding of this loan and if such average falls below that amount the department will pledge such additional revenues satisfactory to the trustee as may be necessary to make up the deficiency.

(2) That no bonds of any additional series of the loan will be issued if (a) the average annual pledged revenues calculated on a gold basis for the two and one-half years ending on the June 30 or December 31 as the case may be next preceding the date of issue of such additional bonds, after deducting all municipal participations, all costs and expenses of collection, administration, and production and the maximum annual amount required for the service of all prior liens and charges thereon shall be less than two times the maximum annual amount required for the service charges on all the bonds outstanding under the loan, including the additional bonds to be issued; and (b) the average annual total revenues of the department calculated on a gold basis for the two and

one-half years ending on the June 30 or December 31 as the case may be next preceding the date of issue of such additional bonds, after deducting all municipal participations and all revenues from sales of capital assets and loans shall be less than four times the maximum annual amount required for the service of its entire funded debt, secured and unsecured, including the additional bonds to be issued.

(3) That if at any time the department shall create any loan, or issue or guarantee any bonds or other obligations, and at the time of such creation, guarantee or issue the average annual total revenues of the department calculated on a gold basis for the two and one-half years ending on the June 30 or December 31 as the case may be next preceding after deducting all municipal participations and all revenues from sales of capital assets and from loans shall be less than four times the maximum annual amount required for the service of its entire funded, debt, secured and unsecured, including such additional issue or guarantee, the department shall not at any time thereafter issue any additional bonds of any series of this loan.

(4) That so long as any of the bonds are outstanding under the loan agreement the department will not increase any of the municipal participations in any of its pledged revenues, if after such increase the average for the two and one-half years ending on the next preceding June 30 or December 31 as the case may be of the pledged revenues after deducting the municipal participations as increased, all costs and expenses of collection, administration, and production and the maximum annual amount required for the service of all prior liens and charges would be less than two times the maximum annual amount required for the service of all the bonds issued and outstanding under the loan agreement at the time of such increase.

REVENUES AND EXPENDITURES

The gross revenues, after deducting municipal participations, pledged as security for these bonds for the two and one-half years ended December 31, 1927, have been as follows (in pesos, one peso being equal to \$0.9733 at par of exchange) :

Year ended June 30, 1926.....	\$2, 912, 886. 38
Year ended June 30, 1927.....	3, 392, 683. 59
6 months ended December 31, 1927.....	1, 976, 693. 73

For the two and one-half years ended December 31, 1927, the above revenues averaged 3.58 times the annual interest and sinking fund requirements on these bonds.

Total revenues (exclusive of the proceeds of loans) and ordinary expenditures of the department for the two and one-half years ended December 31, 1927, were as follows (in pesos, one peso being equal to \$0.9733 at par of exchange) :

	Revenues	Expenditures
Year ended June 30, 1926.....	\$4, 131, 052. 21	\$4, 264, 029. 58
Year ended June 30, 1927.....	4, 830, 660. 22	5, 253, 277. 87
6 months ended Dec. 31, 1927.....	2, 643, 169. 37	2, 248, 388. 74

PUBLIC DEBT

Upon completion of this financing these bonds will constitute the only external debt of the Department. On December 31, 1927, the Department had no internal funded debt and its floating debt amounted to 798,608.67 pesos.

REDEMPTION AND SINKING FUND

A cumulative sinking fund will be provided, calculated to retire these bonds by maturity through semiannual drawings by lot for redemption at their principal amount and accrued interest.

The bonds will also be subjected to redemption, in whole or in part, at the option of the Department, on any interest date, at their principal amount and accrued interest.

All conversions herein made from Colombian pesos into United States dollars have, unless otherwise stated, been made at parity of exchange (1 gold peso equals \$0.9733). The present value of the Colombian peso is about \$0.98.

## CUNDINAMARCA

The Department of Cundinamarca is located in the elevated portion of the interior of Colombia. It has an area of approximately 10,810 square miles and a population estimated at 1,250,000. The city of Bogota, the capital of and the largest city in Colombia, with a population of over 250,000, is also the capital of Cundinamarca.

Cundinamarca contains one of the principal coffee-producing districts of Colombia and the richest known iron and coal deposits in the country. Products of the Department other than coffee include cattle, wheat, cocoa, salt, and sulphites.

The value of real estate in the Department is estimated to be higher than that of any other Department. An official appraisal made in 1927 showed that property with a value of nearly \$343,000,000 was subject to taxation. The value of the property owned by the Department was over \$8,000,000.

The western boundary of the Department of Cundinamarca is the Magdalena River, which has been the chief transportation route of Colombia. The Cundinamarca Railway, slightly more than 86 per cent of the stock of which is owned by the Department, runs from Bogota to the vicinity of Facatativa, and it is planned to extend this railway to a port on the lower Magdalena River, thus providing direct rail and water communication between Bogota and the Caribbean Sea. The proposed extension will open up for development a territory reported to be well adapted to the production of coffee, sugar, and other products. The Republic of Colombia subsidizes the construction of this railway in the amount of 20,000 pesos per kilometer.

## COLOMBIA

Colombia has a population estimated at over 7,800,000, and an area of over 475,000 square miles (more than the combined areas of France and Germany). South of and adjoining the Isthmus of Panama, it has a coast line both on the Caribbean Sea and the Pacific Ocean and occupies geographically a favorable position for international trade.

The country's chief industries at present are agricultural, Colombia being the world's second largest producer of coffee and the chief producer of the mild coffee which commands a premium in price over the Brazilian grades. Bananas, tobacco, cotton, and sugar are grown, and the production of livestock is an important and growing industry. Colombia is also an important producer of gold and platinum, and at present the chief source of the world's supply of emeralds.

American companies have large investments in the mining, oil, fruit, and livestock industries of Colombia, total American investments there being estimated at over \$200,000,000.

The foreign trade of the country in 1927 was over twice as large as that for 1922. The United States paid to Colombia, under the treaty-settling question arising out of the establishment of Panama as a separate republic, the sum of \$25,000,000. Part of this payment has been used under the guidance of a commission of experts headed by Dr. E. W. Kemmerer of Princeton University, to establish a central bank organized along the lines of the Federal reserve system of the United States with exclusive power of note issue. The remainder of this payment has been used to establish an agricultural mortgage bank, for railroad construction, and for debt retirement.

Colombia's national debt is at present about \$80,000,000, or less than \$11 per capita.

(Signed) RUPERTO MELO,  
Governor of the Department of Cundinamarca.

**\$3,000,000 MORTGAGE BANK OF BOGOTA, REPUBLIC OF COLOMBIA, 20-YEAR 7 PER CENT SINKING FUND GOLD BONDS, ISSUE OF OCTOBER, 1927**

Dated October 1, 1927. Due October 1, 1947. Interest payable April 1 and October 1.

Principal, interest, and premium on redemption payable in United States gold coin of the present standard of weight and fineness, in New York City at the office of J. & W. Seligman & Co., fiscal agent. Bonds are redeemable otherwise than for sinking fund on any interest date as a whole, but not in part, at par and accrued interest plus a premium of 5 per cent if so redeemed on or before:

October 1, 1932, or, if so redeemed thereafter, such premium decreased by 1 per cent for each year or fraction thereof elapsed after October 1, 1932; at par and accrued interest after October 1, 1936. Coupon bonds, registerable as to principal and in denominations of \$1,000 and \$500, interchangeable when in definitive form.

Central Union Trust Co. of New York, trustee.

Cumulative sinking fund payable semiannually commencing February 15, 1928, calculated to retire entire issue by maturity, operating through purchase of bonds below par and accrued interest or through redemption of bonds by lot at par and accrued interest. In lieu of cash, bank may deliver bonds at par for retirement through sinking fund.

Señor don Vicente A. Vargas, manager of the Mortgage Bank of Bogota, has summarized his letter to us as follows:

*General.*—The Mortgage Bank of Bogota was organized in 1925 to take over the mortgage business of the Bank of Bogota, the oldest bank in Colombia, founded in 1871. This action was taken pursuant to a recommendation of the superintendent of banks of Colombia that the business of making mortgage loans be separated from that of commercial banking, and was followed later by the absorption by the Mortgage Bank of Bogota of the mortgage business of four other leading Colombian banks. Its principal office is in Bogota and it has branches throughout Colombia, enabling it to obtain diversification in the character and geographical distribution of its loan.

The bank's capital and legal reserve, which amounted to \$2,433,250 on December 31, 1926, have recently, in keeping with the growth in its business, been increased to an authorized amount, to be paid in by December 31, 1927, of \$4,866,500 (5,000,000 pesos), of which over 80 per cent had been paid in as of September 30, 1927. The bank is now the largest mortgage bank in the Republic in respect of both mortgage loans and capital and reserves. The bank will have outstanding after the conclusion of this financing approximately \$17,000,000 of bonds, of which \$3,000,000 are payable in United States dollars and the remainder in Colombian pesos.

Mortgage banks in Colombia are under the supervision of its superintendent of banks, who makes a complete examination of their affairs twice a year.

*Purpose of issue.*—The proceeds of these bonds will be used in part for the repayment of a banking credit obtained as part of this financing and in part for the retirement of bonds bearing a higher interest rate and for the making of additional mortgage loans.

*Security.*—These bonds will be direct obligations of the bank. By Colombian law and the bank's charter, the mortgage loans of the bank in the aggregate constitute security for its bonds, and the amount of such bonds outstanding may never exceed the amount of such mortgage loans. The bank has covenanted in the trust and fiscal agency agreement that at all times until these bonds are retired it will hold first mortgages on real estate payable in gold in an amount at least equal to the amount of all its bonds outstanding, and, further, that it will not make any mortgage loan in excess of 50 per cent of the appraised value of the mortgaged properties, except that with the approval of two-thirds of its board of directors any such loan may be made up to 60 per cent of such value. In practice, the bank's loans amount to considerably less than 50 per cent of such value. As of September 30, 1927, they were only 40 per cent of such value, whereas on the same date total bonds of the bank outstanding amounted to only 32 per cent of such value.

The bank has covenanted that during the life of these bonds its outstanding bonds, both internal and external, shall never exceed ten times its paid-in capital and reserves.

All conversions of pesos into dollars have been made at parity of exchange, that is, \$0.9733 per Colombian peso.

The above bonds are offered when, as, and if issued and received by us and subject to the approval of our counsel, Messrs. Cravath, Henderson & de Gersdorff and associate Colombian counsel, Dr. Emilio Ferrero, of Bogota. Interim receipts or temporary bonds will be deliverable in the first instance.

Price 92½ per cent and accrued interest, to yield 7.74 per cent to maturity.

The above statements are based on information received partly by cable from official and other sources. While not guaranteed, we believe them to be reliable, but they are in no event to be construed as representations by us.

J. & W. SELIGMAN & Co.

**MORTGAGE BANK OF BOGOTA,  
Bogota, Colombia, December 2, 1927.**

Messrs. J. & W. SELIGMAN & Co.,  
New York City.

DEAR SIRS: I am pleased to give you the following information with reference to the proposed issue of \$3,000,000 principal amount of 20-year 7 per cent sinking fund gold bonds, issue of October, 1927, of the Mortgage Bank of Bogota (Banco Hipotecario de Bogota):

**GENERAL**

The Mortgage Bank of Bogota was organized in 1925 to take over the mortgage business of the Bank of Bogota, the oldest bank in the Republic of Colombia, founded in 1871. This action was taken pursuant to a recommendation of the superintendent of banks of Colombia that the business of making mortgage loans be separated from that of commercial banking, and was followed later by the absorption by the Mortgage Bank of Bogota of the mortgage business of four other leading Colombian banks, the Banco Central (Bogota), the Banco del Pacifico (Cali), the Banco del Ruiz (Manizales), and the Banco Republicano (Medellin). A controlling interest in the stock of the Mortgage Bank of Bogota is held by interests identified with the most influential Colombian commercial banks, including the above-mentioned banks, which are actively represented on the board of directors of the bank. Shares of the bank of a par value of 20 pesos are listed in Bogota and are selling currently at about 42 pesos.

The principal office of the bank is in Bogota, with branches in all the important cities in Colombia, as follows: Medellin, Manizales, Cartagena, Cali, Ibague, Sogamoso, Barranquilla, Pereira, Girardot, Bucamaranga, Cucuta, Armenia, Popayan, Buga, Pasto and Neiva.

In addition to wide geographical distribution, the bank also obtains diversification in the character of its loans. Such loans may be either on improved urban property or improved agricultural real estate, in each case secured by first mortgages thereon, or to municipalities, secured by first mortgages and/or the pledge of specific revenues. Since its inception the bank has not sustained any loss on any of its loans.

The bank's capital and legal reserve, which amounted to \$534,000 on December 31, 1925, and \$2,433,250 on December 31, 1926, have recently, in keeping with the growth in its business, been further increased to an authorized amount, to be paid in by December 31, 1927, of \$4,866,500 (5,000,000 pesos), of which over 80 per cent had been paid in as of September 30, 1927. The bank is now second only to the central bank of issue, the Banco de la Republica, in capital and reserves. It is the largest mortgage bank in Colombia both as to mortgage loans and capital and reserves. The bank will have outstanding after the conclusion of this financing approximately \$17,000,000 of bonds, of which \$6,000,000 are payable in United States dollars and the remainder in Colombian pesos. The bank's net profits for the first nine months of 1927 exceed \$250,000, which is at an annual rate of approximately 12 per cent on the average paid-in capital for this period.

**GOVERNMENTAL SUPERVISION**

The banking system of the Republic was patterned after that of the United States, following the investigations and recommendations of an American commission under Prof. E. W. Kemmerer in 1923. All banks, including mortgage banks, were placed under the supervision of the national government through a national superintendent of banks, who is required to examine their books and portfolios at least twice a year, and to whom their statements must be sent at least five times a year.

**PURPOSE OF ISSUE**

The proceeds of these bonds will be used in part for the repayment of a banking credit obtained as part of this financing, and in part for the retirement of bonds bearing a higher interest rate, and for the making of additional mortgage loans.

## SECURITY

These bonds will be direct obligations of the bank. By Colombian law and the bank's charter, the mortgage loans of the bank in the aggregate constitute security for its bonds and the amount of such bonds outstanding may never exceed the amount of such mortgage loans. The bank has covenanted in the trust and fiscal agency agreement that at all times until these bonds are retired it will hold first mortgages on real estate payable in gold in an amount at least equal to the amount of all its bonds outstanding, and, further, that it will not make any mortgage loan in excess of 50 per cent of the appraised value of the mortgaged properties, except that with the approval of two-thirds of its board of directors any such loan may be made up to 60 per cent of such value. In practice the bank's loans amount to considerably less than 50 per cent of such value. As of September 30, 1927, the appraised value of such mortgaged properties aggregated over 45,000,000 pesos, whereas the loans secured thereby aggregated 18,101,505 pesos, or 40 per cent of such value. At the same time, mortgage bonds outstanding, both internal and external, amounted to 14,426,500 pesos, or only 32 per cent of such value.

The bank has also covenanted that during the life of these bonds its outstanding bonds, both internal and external, shall never exceed ten times its paid-in capital and reserves, and that if the bank shall at any time issue any other bonds secured by the specific pledge of mortgage obligations, it will secure these bonds equally and ratably therewith.

Additional safeguards for the bonds of the bank are provided by Colombian law or the bank's charter (contract and act of organization) and by-laws as follows:

(1) The mortgage loans of the bank are required to have a fixed maturity date and to be subject to gradual amortization.

(2) The bank is required to constitute a reserve fund by the appropriation annually of at least 10 per cent of its net profits until such reserve fund shall amount to 50 per cent of the authorized capital of the bank.

(3) Provision is made in case of default on any mortgage loan for immediate foreclosure of the mortgage securing such loan through a simplified procedure, the borrower being excluded from any defense save proof of payment or incorrectness of the bank's statement of debt.

(4) The mortgage loans made by the bank are repayable in gold coin. Any changes made by law in the currency of the Republic shall not affect debts owing to the bank or debts contracted by the bank before the enactment of such laws.

## DESCRIPTION OF BONDS

The bonds of this issue will be limited to \$3,000,000 principal amount; will be dated October 1, 1927; will mature October 1, 1947; will bear interest from October 1, 1927, at the rate of 7 per cent per annum payable semiannually on April 1 and October 1 in each year; and will be issued in coupon form payable to bearer, registerable as to principal only, and in interchangeable denominations of \$1,000 and \$500. Temporary bonds, exchangeable for definitive bonds, may be delivered in the first instance. Principal of, and interest and premium on, the bonds will be payable at the office of the fiscal agent, Messrs J. & W. Seligman & Co., New York City, in United States gold coin of the present standard, without deduction for Colombian taxes. The bonds will be redeemable, otherwise than through the sinking fund, on any interest date, as a whole but not in part, on 30 days' notice at par and accrued interest plus a premium of 5 per cent if so redeemed on or before October 1, 1932, or if so redeemed thereafter, such premium decreased by 1 per cent for each year or fraction thereof elapsed after October 1, 1932. These bonds will be issued under a trust and fiscal agency agreement dated October 1, 1927, executed by the bank to Central Union Trust Co. of New York, as trustee, and J. & W. Seligman & Co., as fiscal agent.

## SINKING FUND AND RESERVE FUND

The trust and fiscal agency agreement provides for a cumulative sinking fund beginning February 15, 1928, calculated to be sufficient to retire all the bonds of this issue by maturity through purchase of bonds below par and accrued

interest or, if not so obtainable, through redemption of bonds by lot at par and accrued interest. In lieu of cash, the bank may tender bonds at par.

The bank has agreed that it will maintain with the fiscal agent, during the life of the bonds, an amount equal to six months' service charges on the bonds outstanding, which sum shall at the request of the bank be invested in approved obligations of or guaranteed by the Republic of Colombia or any State, Department, or municipality thereof, which are listed on the New York Stock Exchange, or in approved short-term securities, the market value of such obligations together with cash to be maintained at all times in an amount equivalent to six months' service charges on such bonds.

*Balance sheet as of September 30, 1927*

[In Colombian pesos. 1 peso = \$0.9733]

Assets:	Pesos	Liabilities and capital:	Pesos
Cash.....	345,469.47	Time deposits.....	739,553.69
Deposits in local banks.....	125,253.54	Deposits by other local banks.....	342,437.04
Deposits in foreign banks.....	219,356.39	Short-term credits..	411,115.38
Various debtors....	264,186.36	Long-term credits..	1,961,933.75
Interest receivable..	334,664.02	Interest received in advance.....	51,765.23
Bonds and securities.....	2,146,754.33	Bonds (including \$3,000,000 external issue of May, 1927).....	14,426,500.00
Mortgage loans.....	18,101,505.63	Capital and reserve	4,069,260.57
Bank buildings, furniture, and fixtures.....	193,288.17	Undivided profits..	90,974.89
Other assets.....	363,063.69		
	22,093,541.60		22,093,541.60

REPUBLIC OF COLOMBIA

The Republic of Colombia has an area of about 475,000 square miles, or greater than that of all the states of the Atlantic Coast from Maine to Florida, and a population of over 7,000,000. While fifth in area, it ranks third in population among the South American republics. In close proximity to the Panama Canal, with a coast line both on the Atlantic (Caribbean Sea) and the Pacific, its situation is most favorable from a commercial standpoint.

Colombia is rich in agricultural and mineral resources. It is the world's second largest producer of coffee, and the largest producer of "mild" coffee, which commands premium prices. Bananas, tobacco, cotton, and sugar are the other principal agricultural commodities, and the livestock industry is important and growing. The country's petroleum reserves are reported to be large, and actual production is being rapidly developed by foreign companies, principally American. The country also has important deposits of coal, gold, iron, and emeralds.

Foreign trade has grown from \$62,000,000 in 1913 to \$122,000,000 in 1924, to \$170,000,000 in 1925, and to \$223,000,000 in 1926. Exports and imports approximately balanced in 1926, and in 18 out of the past 21 years Colombian trade has shown an excess of exports over imports. The increasing imports during the past few years reflect the growth in the investment of foreign capital in the country.

Colombia's budget has shown a surplus of ordinary revenues over ordinary expenditures during the past four fiscal years. The national debt, outstanding at the relatively low rate of \$6 per capita, compares with an estimated per capita wealth of over \$750.

Colombia's currency is on a gold basis and has for some years been quoted approximately at, or slightly above, par.

The ratio of its gold reserve to its notes in circulation exceeds 80 per cent.

Yours very truly,

VICENTE A. VARGAS,  
*Manager Mortgage Bank of Bogota.*

**\$50,000,000 REPUBLIC OF PERU, PERUVIAN NATIONAL LOAN, 6 PER CENT EXTERNAL SINKING-FUND GOLD BONDS, FIRST SERIES**

A substantial amount of this issue has been reserved for sale in Europe, through Seligman Brothers, London, through Pierson & Co., the Netherlands Trading Society, and Mendelssohn & Co., Amsterdam, and through the Crédit Suisse, Switzerland.

Dated December 1, 1927. Due December 1, 1960.

Interest payable June 1 and December 1. Redeemable in whole or in part, at the option of the Republic, on any interest date, on 60 days' published notice, at principal amount and accrued interest. Principal and interest payable in United States gold coin of the standard of weight and fineness existing December 1, 1927, in New York City, at the principal office of either of the fiscal agents, J. & W. Seligman & Co. and The National City Bank of New York, without deduction for any Peruvian taxes present or future; also payable, at the option of the holder, in pounds sterling in London, in Dutch guilders in Amsterdam, or in Swiss francs in Zurich or Basle, in each case at the offices of the respective paying agents in such cities at the bankers' buying rate for dollar sight exchange on New York at the time of payment. Bonds in coupon-bearer form in denominations of \$1,000 and \$500. First series limited to \$50,000,000 principal amount.

A cumulative sinking fund will be provided, calculated to retire all these bonds by maturity through semiannual drawings by lot for redemption at their principal amount and accrued interest.

His Excellency, Señor don Manuel G. Masias, Minister of Finance of the Republic of Peru, has summarized his accompanying letter to us as follows:

*Purpose of the loan.*—These bonds will constitute the first series of a Peruvian national loan which has been authorized for the purpose, among others, of refunding the entire external secured debt of the Republic. The proceeds of this first series will be used primarily for retiring by purchase or redemption certain of the external secured loans or obligations of the Republic, the service charges on which are comparatively high. The remainder of the proceeds of this first series will be used for (1) The repayment of short-term interim indebtedness of the Republic contracted for objects included within the purposes of the loan, (2) the establishment of a gold exchange fund to be utilized to assist the stabilization of the Peruvian national currency, (3) the payment of the Republic's share of the capital of the Mortgage Bank of Peru, soon to be created, (4) the construction and improvement of dock and shipping facilities in the harbor of Callao, and (5) the carrying forward of public works now under construction. The bonds will be issued under a fiscal agency and loan agreement which will provide for the issue of additional series of the loan under specified restrictions.

*Security.*—These bonds will be direct obligations of the Republic of Peru, which will pledge its full faith and credit for the payment thereof and which will covenant, among other things, so long as any bonds of the Peruvian national loan are outstanding, (1) Not to issue or guarantee any loan or obligations secured by a lien on specific revenues nor, without the consent of the fiscal agents, on specific assets, unless prior thereto bonds of the Peruvian national loan of all series shall be given a lien on such revenues or assets, subject only to existing liens, if any, and (2) if it shall issue or guarantee any funded debt, secured or unsecured, whereby the maximum annual service charges on the entire funded debt, external and internal, and not repurchased and held for retirement, are increased to more than one-third of the average annual gross revenues for the three fiscal years next preceding the date of such issue or guaranty, then all revenues collected by or deposited with the Caja de Depositos y Consignaciones (referred to below) shall automatically become subject to a lien in favor of the bonds of the Peruvian national loan, subject only to already existing liens, if any.

The Republic has made provision by law for the collection by or deposit with the Caja de Depositos y Consignaciones, effective January 1, 1923, of a substantial part of its revenues, and the Caja has covenanted to apply the available revenues received by it each month to the payment to the fiscal agents of the monthly service charges for all bonds of the Peruvian national loan of all series outstanding before paying over any sums to the Republic. Pursuant to such provision, it is contemplated that the Caja will shortly commence to collect or receive the deposit of revenues which averaged, for the 3-year period, 1924, 1925, and 1926, \$17,126,376 per annum, of which there will

be available for the service of the first-series bonds revenues which averaged annually for this 3-year period \$14,224,155, or 4.06 times, and in 1926 amounted to \$17,180,660, or 4.90 times, the annual service charge of \$3,500,000 on the first-series bonds.

*General.*—The Republic of Peru is the third largest country in South America and has a population estimated at 6,000,000. It is rich in mineral and agricultural resources. It is the world's third largest producer of silver and for many years it has exported large quantities of low-cost copper. Its petroleum resources, considered of great potential value, are being rapidly developed by capital from the United States and other foreign countries. A wide range of climatic conditions results in diversified agricultural production.

The total public debt of the Republic as of June 30, 1927, was \$82,174,967 (exclusive of \$1,500,000 municipal debt, guaranteed by the Republic), or about \$14 per capita, of which \$63,161,605 was external debt and \$19,013,362 internal debt (conversion of Peruvian pounds made at the average rate of exchange for the first six months of 1927). The total annual service charges on the external debt were, before this issue, approximately \$6,620,417, or about 17 per cent of the Republic's revenues for 1926, and on the entire funded debt, \$8,056,092, or less than 21 per cent of the 1926 revenues. The plan tentatively agreed upon by the Republic and fiscal agents for the retirement of external loans and obligations with part of the proceeds of this first series results in an increase of less than \$215,000 in the annual debt service of the Republic by reason of this issue.

Total expenditures of the Republic for 1923, 1924, 1925, and 1926, including both ordinary and extraordinary expenditures but excluding expenditures for capital purposes, averaged annually \$37,048,991 (conversions made at the average rates of exchange for the respective years), and total revenues, excluding the proceeds of loans, averaged for the same years \$36,745,954.

These bonds are offered when, as, and if issued and received by us, subject to allotment and to the approval of our counsel Messrs. Cravath, Henderson & de Gersdorff and associate Peruvian counsel. It is expected that delivery, in the form of interim receipts or temporary bonds, will be made about December 30, 1927.

Application will be made in due course to list these bonds on the New York Stock Exchange.

Price 91½ and accrued interest. Average yield 6.80 per cent.

J. & W. Seligman & Co., The National City Co., Blyth, Witter & Co., Continental National Co., E. H. Rollins & Sons, F. J. Lisman & Co., J. Henry Schroder Banking Corporation, Graham, Parsons & Co., Ames, Emerich & Co. (Inc.).

REPUBLIC OF PERU,  
December 19, 1927.

Messrs. J. & W. SELIGMAN & Co.,  
The NATIONAL CITY Co.,

DEAR SIRS: In connection with the issue and sale to you by the Republic of Peru of \$50,000,000 principal amount of Peruvian national loan, 6 per cent external sinking fund gold bonds, first series, I am pleased to submit the following information:

PURPOSE OF THE LOAN

These bonds will constitute the first series of a Peruvian national loan which has been authorized for the purpose, among others, of refunding the entire external secured debt of the Republic. The Republic will covenant in the fiscal agency and loan agreement, under which the bonds are to be issued, that until all its outstanding external secured debt shall have been redeemed, it will not issue any additional series of the loan without the consent of the fiscal agents except for the purpose either of purchasing or redeeming bonds of its external secured loans or for capital expenditures for public works now under construction. The proceeds of this first series will be used primarily for the purpose of

NOTE.—Conversions of Peruvian pounds into dollars have, unless otherwise stated, been made at the rate of \$3.94 per Peruvian pound, the average rate for 1924, 1925, and 1926. The present value of the Peruvian pound is about \$3.94. Conversions of pounds sterling have been made at the rate of \$4.8665 per pound sterling.

retiring; by purchase or redemption, certain of the external secured loans or obligations of the Republic, the service charges on which are comparatively high. The remainder of the proceeds of this first series will be used for (1) the repayment of short-term interim indebtedness of the Republic contracted for objects included within the purposes of the loan, (2) the establishment of a gold exchange fund to be utilized to effect the stabilization of the Peruvian national currency, (3) the payment of the Republic's share of the capital of the Mortgage Bank of Peru, soon to be created, (4) the construction and improvement of dock and shipping facilities in the harbor of Callao, and (5) the carrying forward of important public works now under construction.

#### STABILIZATION OF THE CURRENCY

The Republic will covenant to cooperate fully with the Banco de Reserva del Peru in stabilizing the Peruvian currency, and to set aside a part of the proceeds of this first series with the fiscal agents as a gold exchange fund for such purpose. Provision will be made for the appointment of a representative of the fiscal agents on the board of directors of the banco de reserva.

The banco de reserva was established in 1922, and, in addition to its rediscouinting functions, was given the sole responsibility for the regulation of the currency of the Republic. It is obliged to maintain a minimum gold reserve of 50 per cent (part of which may be held abroad) against outstanding notes. As of October 31, 1927, the ratio of gold to paper currency in circulation was over 83 per cent. A limited embargo on the export of gold from Peru has been in effect since 1914.

#### SECURITY

These bonds will be direct obligations of the Republic of Peru, which will pledge its full faith and credit for the payment thereof and which will covenant, among other things, (1) not to issue bonds of any additional series of the loan unless the gross revenues of the Republic shall have averaged for the three fiscal years next preceding the date of issue at least three times the maximum annual service charges on its entire funded debt, including the additional series to be issued, (2) so long as any bonds of the Peruvian national loan are outstanding, not to issue or guarantee any loan or obligations secured by a lien on specific revenues nor, without the consent of the fiscal agents, on specific assets, unless prior thereto all bonds of the Peruvian national loan of all series shall be given a lien on such revenues or assets, subject only to existing liens, if any, and (3) that if, so long as any bonds of the Peruvian national loan are outstanding, the Republic issues or guarantees any funded debt, secured or unsecured, whereby the maximum annual service charges on the entire funded debt, external and internal, and not repurchased and held for retirement, are increased to more than one-third of the average annual gross revenues for the three fiscal years next preceding the date of such issue or guaranty, then all revenues collected by or deposited with the Caja de Depositos y Consignaciones (referred to below) shall automatically become subject to a lien in favor of the bonds of the Peruvian national loan, subject only to already existing liens, if any.

The Republic has provided by law, effective January 1, 1928, (1) for the collection by the Caja de Depositos y Consignaciones, so long as any bonds of the Peruvian national loan are outstanding, of all present and future revenues of the Republic of whatever origin, except revenues now pledged as security for existing external loans and intrusted for collection during the life of such loans to other agencies, and except, also, for the present, the revenues of posts and telegraphs and customs revenues not now pledged as security for external loans, and (2) for the deposit with the caja, after deduction of the prior charges thereon, of all revenues now pledged as security for external loans and intrusted during the life of the loans to other agencies for collection. The caja has been authorized by law and has covenanted to apply all available moneys as collected or deposited each month to the payment to the fiscal agents of the monthly service charges for bonds of all series of the Peruvian national loan at any time outstanding before making any disbursement of such available moneys for any other purpose.

According to such provision, the caja will shortly commence to collect or receive the deposit of revenues which averaged, for the 3-year period 1924, 1925, and 1926, \$17,126,376 per annum. Of this total there will be available for the service of the first-series bonds revenues which averaged annually for

the 3-year period \$14,224,155, or 4.06 times, and in 1926 amounted to \$17,180,600, or 4.90 times, the annual service charge of \$3,500,000 on the first-series bonds. The amount of the revenues collected by or deposited with the caja and available for the services of the bonds of the Peruvian national loan should be substantially increased as outstanding secured loans of the Republic are retired.

The Caja de Depositos y Consignaciones is a Peruvian corporation formed in 1905 as a trustee and depository for government administrative and judicial funds and the deposits of public institutions. All of its stock is owned by local banks in Peru and its directorate, with the exception of a representative of the Republic and one for the fiscal agents, is composed of representatives of such banks. The fiscal agents now have and will by law continue to have, as long as any bonds of the Peruvian national loan are outstanding, the right to be represented on the caja's board of directors.

#### GENERAL

The Republic of Peru is the third largest country in South America, with an area of approximately 550,000 square miles. It has a population estimated at 6,000,000. Construction of the Panama Canal reduced the steaming distance from New York to Callao, its chief port and one of the most important in South America, from 9,000 to less than 3,500 nautical miles.

Mining and agriculture are the principal activities of Peru. Peru is the world's third largest producer of silver, and for many years has exported large quantities of low cost copper. Eighty per cent of the world's production of vanadium comes from Peru. The principal United States mining companies operating in Peru are the American Smelting & Refining Co. and the Cerro de Pasco Copper Corporation. The petroleum reserves, considered of great potential value, are being rapidly developed by capital from the United States and other foreign countries. The Standard Oil Co. of New Jersey, through its subsidiaries, is active in this field. A wide range of climatic conditions results in diversified agricultural production. Most of the world's supply of alpaca wool comes from Peru.

It is estimated that more than \$400,000,000 of foreign capital is invested in Peru, of which about \$250,000,000 is capital from the United States.

#### PUBLIC DEBT

The total public debt of the Republic as of June 30, 1927, was \$82,174,967 (exclusive of \$1,500,000 of municipal bonds, guaranteed by the Republic), or about \$14 per capita, of which \$63,161,605 was external debt and \$19,013,362 internal debt (conversion of Peruvian pounds made at the average rate for first six months of 1927). The total annual service charges on the external debt were, prior to this issue, approximately \$6,620,417, or approximately 17 per cent of the Republic's revenues for 1926, and on the entire funded debt \$8,056,992, or less than 21 per cent of the 1926 revenues. The plan tentatively agreed upon by the Republic and fiscal agents for the retirement of external loans and obligations with part of the proceeds of this first series results in an increase of less than \$215,000 in the annual debt service of the Republic by reason of this issue.

#### REVENUES AND EXPENDITURES

Total revenues and ordinary expenditures of the Republic for the last four years were as follows (conversions made at average rates of exchange for the respective years):

	Total revenues	Ordinary expenditures
1923.....	\$31,373,360	\$31,321,669
1924.....	33,655,500	34,756,994
1925.....	38,447,856	38,146,949
1926.....	38,600,788	39,445,087

Total expenditures of the Republic, including both ordinary and extraordinary expenditures, but excluding expenditures for capital purposes, average

annually for the 4-year period \$37,048,901, whereas the annual average of the total revenues for the same period was \$36,745,954. Total revenues as stated above are exclusive of the proceeds of loans.

## FOREIGN TRADE

Exports from Peru have exceeded imports for every year, excepting two, for which figures are available. Figures<sup>1</sup> for recent years follow:

	Exports	Imports	Excess of exports
1922.....	\$72,154,478	\$40,577,258	\$31,267,220
1923.....	98,438,557	58,083,782	40,354,775
1924.....	101,713,227	73,019,143	28,694,084
1925.....	87,437,466	73,457,376	13,980,112
1926.....	69,573,059	73,347,673	16,523,186

## REDEMPTION AND SINKING FUND

A cumulative sinking fund will be provided, calculated to retire this issue by maturity through semiannual drawings by lot for redemptions at principal amount and accrued interest.

The bonds will also be subject to redemption, in whole or in part, at the option of the Republic, on any interest date, at principal amount and accrued interest, upon 60 days' published notice.

All conversions herein made from Peruvian pounds into United States dollars have, unless otherwise stated, been made at \$3.94 per pound, the average rate for the 3-year period 1924, 1925, and 1926. The present value of the Peruvian pound is about \$3.94. Conversions from pounds sterling into dollars have been made at \$4.8065 per pound sterling.

M. G. MASIAS,  
*Minister of Finance.*

\$25,000,000, REPUBLIC OF PERU—PERUVIAN NATIONAL LOAN, 6 PER CENT EXTERNAL  
SINKING FUND GOLD BONDS, SECOND SERIES

A substantial amount of this issue has been reserved for sale in Europe, through Pierson & Co., the Netherlands Trading Society, Mendelssohn & Co., and De Twentsche Bank, Amsterdam, and through the Credit Suisse, Switzerland.

An issue of £2,000,000, principal amount, of sterling bonds constituting a part of the second series of the Peruvian national loan, is being offered in London through Sellman Brothers (Ltd.) and the National City Co.

Dated October 1, 1928. Due October 1, 1931.

Interest payable April 1 and October 1. Redeemable in whole or in part, at the option of the Republic, on any interest date, on 60 days' published notice, at principal amount and accrued interest. Principal and interest payable in United States gold coin of the standard of weight and fineness existing October 1, 1928, in New York City, at the principal office of either of the fiscal agents, J. & W. Seligman & Co. and the National City Bank of New York, without deduction for any Peruvian taxes present or future; also payable, at the option of the holder, in pounds sterling in London, in Dutch guilders in Amsterdam, or in Swiss francs in Zurich or Basle, at the offices of the paying agents in such cities at the buying rate of the paying agents making such payment for dollar sight exchange on New York at the time of payment. Bonds in coupons bearer form in denominations of \$1,000 and \$500. Second series, including the sterling bonds, limited to \$50,000,000 principal amount or the equivalent in pounds sterling at par of exchange. A cumulative sinking fund will be provided, calculated to retire all second series bonds by maturity through semiannual drawings by lot for redemption at their principal amount and accrued interest.

His Excellency, Señor don Manuel G. Masias, Minister of Finance of the Republic of Peru, has summarized his accompanying letter to us as follows:

*Purpose of the loan.*—These bonds will constitute part of a second series of the Peruvian national loan which loan has been authorized for the purpose,

<sup>1</sup> Converted at average rates of exchange for the respective years.

among others, of refunding the entire external secured debt of the Republic. The proceeds of the second series bonds will be used primarily for retiring by purchase or redemption certain of the external secured loans of the Republic. The remainder will be used for (1) the repayment of short term indebtedness of the Republic, contracted for objects included within the purposes of the loan, (2) the construction and improvement of dock and shipping facilities in the harbor of Callao, and (3) capital expenditures for public works. The bonds will be issued under the fiscal agency and loan agreement dated December 1, 1927, and an agreement supplemental thereto dated October 1, 1928.

*Security.*—These bonds will be direct obligations of the Republic of Peru, which will pledge its full faith and credit for the payment thereof and which has covenanted, among other things, so long as any bonds of the Peruvian national loan are outstanding, (1) not to issue, assume, or guaranty any loan or obligations secured by a lien on its revenues nor, without the consent of the fiscal agents, on its assets, unless prior thereto bonds of the Peruvian national loan of all series shall be given a lien on such revenues or assets, subject only to liens existing December 1, 1927, and still in force, if any, and (2) if it shall issue, assume, or guarantee any funded debt, secured or unsecured, whereby the maximum annual service charges on its entire funded debt, external and internal, and not repurchased and held for retirement, are increased to more than one-third of its average annual gross revenues for the three fiscal years next preceding the date of such issue, assumption, or guaranty, then all revenues collected by or deposited with the *caja de depositos y consignaciones* (referred to below as the *caja*) shall automatically become subject to a lien in favor of the bonds of the Peruvian national loan, subject only to liens existing December 1, 1927, and still in force, if any.

Pursuant to law effective January 1, 1928, the *caja* is now charged with the collection or receiving the deposit of revenues the gross proceeds of which averaged, for the three fiscal years 1925, 1926, and 1927, \$20,704,250 per annum, of which the revenues available, under such law, for the service of first series bonds and second series bonds presently to be outstanding averaged for such three years' period, \$17,190,663 per annum, or two and eighty-eight one-hundredths times, and for 1927 amounted to \$19,413,666, or three and twenty-six one-hundredths times the service charges on such first and second series bonds. The *caja* has covenanted to apply monthly all available moneys as collected or deposited to the payment to the fiscal agents of the service charges on all bonds of all series of the Peruvian national loan outstanding before making any disbursement thereof for other purposes.

*General.*—The total public debt of the Republic as of June 30, 1928, was equivalent to approximately \$128,521,695, of which \$97,274,562 was external funded debt (conversions of Peruvian pounds made at the average rate of exchange for the first six months of 1928). The total annual service charges on the external funded debt were, before the issue of second series bonds, approximately \$3,502,478, or about 21.26 per cent of the Republic's revenues for 1927, and on the entire funded debt \$9,884,448, or 24.72 per cent of such revenues. The plan tentatively agreed upon by the Republic and fiscal agents for the retirement of external secured loans with part of the proceeds of these and the sterling bonds results in an increase of about \$400,000, in the annual debt service of the Republic by reason of this and the Sterling issue.

*Note:* Conversions of Peruvian pounds into dollars have, unless otherwise stated, been made at the rate of \$3.83 per Peruvian pound, the average rate for the period 1925, 1926, and 1927. The present value of the Peruvian pound is about \$4. Conversions of pounds sterling into dollars have been made at the rate of \$4.8665 per pound sterling.

These bonds are offered when, as, and if issued and received by us, subject to allotment and prior sale and to the approval of our counsel, Messrs. Cravath, de Gersdorff, Swaine & Wood of New York and associate Peruvian counsel. It is expected that delivery, in the form of interim certificates or temporary bonds, will be made about November 2, 1928. Application will be made in due course to list these bonds on the New York Stock Exchange. Price 91 and accrued interest. Average yield 6.85 per cent.

REPUBLIC OF PERU,  
October 20, 1928.

Messrs. J. & W. SELIGMAN & Co.,  
The National City Co.

DEAR SIR: In connection with the issue and sale to you by the Republic of Peru of \$25,000,000 principal amount of 6 per cent external sinking fund gold

bonds, second series and £2,000,000 principal amount of 6 per cent external sinking fund bonds, second series, of the Peruvian national loan, I am pleased to submit the following information:

#### PURPOSE OF THE LOAN

The bonds will constitute part of a second series of the Peruvian national loan, which loan has been authorized for the purpose, among others, of refunding the entire external secured debt of the Republic. The bonds will be issued under the fiscal agency and loan agreement dated December 1, 1927, which provides for the issue of additional series of the loan under specified restrictions, and an agreement supplemental thereto dated October 1, 1928. The Republic has covenanted in the fiscal agency and loan agreement, that until all its outstanding external secured debt shall have been paid or redeemed or redemption provided for, it will not, except with the consent of the fiscal agents, issue any additional series of the loan except for the purpose either of purchasing or redeeming external secured loans or for capital expenditures for public works construction. The proceeds of the second series bonds will be used primarily for the purpose of retiring by purchase or redemption certain of the external secured loans of the Republic. The remainder will be used for (1) the repayment of short term indebtedness of the Republic contracted for objects included within the purposes of the loan, (2) the construction and improvement of dock and shipping facilities in the harbor of Callao and (3) capital expenditures for public works.

#### STABILIZATION OF THE CURRENCY

The Republic has taken steps to stabilize the Peruvian currency and since May 1, 1928, its fluctuations have been confined within the limits of \$3.99 and \$4.03. The fiscal agents now have, and will by law continue to have, so long as any bonds of the Peruvian national loan are outstanding, the right to be represented on the board of directors of the Banco de Reserva del Peru.

The Banco de Reserva was established in 1922, and, in addition to its rediscounting functions, was given the sole responsibility for the regulation of the currency of the Republic. It is obliged to maintain a minimum gold reserve of 50 per cent (part of which may be held abroad) against outstanding notes. As of August 31, 1928, the ratio of gold to paper currency in circulation was 88.92 per cent.

A limited embargo on the export of gold from Peru has been in effect since 1914.

#### SECURITY

These bonds will be direct obligations of the Republic of Peru, which will pledge its full faith and credit for the payment thereof and which has covenanted, among other things, (1) not to issue bonds of any series of the loan in addition to the first series unless the gross revenues of the Republic shall have averaged for the three fiscal years next preceding the date of issue at least three times the maximum annual service charges on its entire funded debt, excluding that represented by bonds purchased by the fiscal agents and held pending retirement but including the additional bonds to be issued, (2) so long as any bonds of the Peruvian national loan are outstanding, not to issue, assume, or guarantee any loan or obligations secured by a lien on its revenues nor, without the consent of the fiscal agents, on its assets, unless prior thereto bonds of the Peruvian national loan of all series shall be given a lien on such revenues or assets, subject only to liens existing December 1, 1927, and still in force, if any, and (3) that if, so long as any bonds of the Peruvian national loan are outstanding, the Republic issues, assumes, or guarantees any funded debt, secured or unsecured, whereby the maximum annual service charges on its entire funded debt, external and internal, excluding that represented by bonds purchased by the fiscal agents and held pending retirement, are increased to more than one-third of its average annual gross revenues for the three fiscal years next preceding the date of such issue, assumption, or guaranty, then all revenues collected by or deposited with the *caja de depositos y consignaciones* (referred to below as *la caja*) shall automatically become subject to a lien in favor of the bonds of the Peruvian national loan, subject only to liens existing December 1, 1927, and still in force, if any.

The Republic has provided by law, effective January 1, 1928, (1) for the collection by the caja, so long as any bonds of the Peruvian national loan are outstanding, of all present and future revenues of the Republic of whatever origin, except revenues pledged at the date of such law as security for external loans and entrusted for collection during the life of such loans to other agencies, and except, also, for the present, the revenues of posts and telegraphs, and customs revenues not pledged at the date of such law as security for external loans, and (2) for the deposit with the caja, after deduction of the prior charges thereon, of all revenues pledged at the date of such law as security for external loans and entrusted during the life of the loans to other agencies for collection. The caja has been authorized by law and has covenanted to apply all available moneys as collected or deposited each month to the payment to the fiscal agents of the monthly service charges for bonds of all series of the Peruvian national loan at any time outstanding before making any disbursement of such available moneys for any other purpose.

Pursuant to such law, the caja is now charged with the collection or receiving the deposit of revenues the gross proceeds of which averaged, for the three fiscal years 1925, 1926, and 1927, \$20,794,259 per annum. Of this total there is available, under the terms of such law, for the service of the first-series bonds and second-series bonds soon to be outstanding revenues which averaged annually for such 3-year period \$17,190,663, or two and eighty-eight-hundredths times, and for 1927 amounted to \$19,413,666, or three and twenty-six-hundredths times, the annual service charges on the first-series bonds and the second-series bonds presently to be outstanding. The amount of the revenues collected by or deposited with the caja and available for the services of the bonds of the Peruvian national loan should be substantially increased as outstanding secured loans of the Republic are retired.

The caja is a Peruvian corporation formed in 1905 as a trustee and depository for government administrative and judicial funds and the deposits of public institutions. All of its stock is owned by local banks in Peru and its directorate, with the exception of a representative of the Republic and one for the fiscal agents, is composed of representatives of such banks. The fiscal agents now have and will by law continue to have, as long as any bonds of the Peruvian national loan are outstanding, the right to be represented on the caja's board of directors.

#### GENERAL

The Republic of Peru is the third largest country in South America, with an area of approximately 550,000 square miles. Construction of the Panama Canal reduced the steaming distance from New York to Callao, its chief port and one of the most important in South America, from 9,000 to less than 3,500 nautical miles.

Mining and agriculture are the principal activities of Peru. Peru is the world's third largest producer of silver, and for many years has exported large quantities of low-cost copper. Eighty per cent of the world's production of vanadium comes from Peru. The principal United States mining companies operating in Peru are the American Smelting & Refining Co., and the Cerro de Pasco Copper Corporation. The petroleum reserves, considered of great potential value, are being rapidly developed by capital from the United States and other foreign countries. The Standard Oil Co. of New Jersey, through its subsidiaries, is active in this field. A wide range of climatic conditions result in diversified agricultural production. Most of the world's supply of alpaca wool comes from Peru.

It is estimated that more than \$400,000,000 of foreign capital is invested in Peru, of which about \$250,000,000 is capital from the United States.

#### PUBLIC DEBT

The total public debt of the Republic as of June 30, 1928, was equivalent to approximately \$128,521,695 (exclusive of \$1,418,500 of provincial bonds guaranteed by the Republic but inclusive of \$9,931,972 of the bonds forming part of said debt which the Republic has acquired by purchase and which bonds are being held by the fiscal agents for account of the Republic pending their retirement or other disposition), of which \$97,274,562 was external funded debt (conversions of Peruvian pounds made at the average rate for the first six months of 1928). The total annual service charges on the external funded debt were, prior to this issue, approximately \$8,502,478, or approximately 21.26 per cent of the Republic's revenues for 1927, and on the entire funded

debt \$9,884,448, or 24.72 per cent of the 1927 revenues. The plan tentatively agreed upon by the Republic and fiscal agents for the retirement of external secured loans with part of the proceeds of the second series results in an increase of about \$400,000 in the annual debt service of the Republic by reason of this issue of dollars and sterling second-series bonds.

## REVENUES AND EXPENDITURES

Total revenues and ordinary expenditures of the Republic for the last four years were as follows (conversions made at average rates of exchange for the respective years):

	Total revenues <sup>1</sup>	Ordinary expenditures
1924.....	\$37,691,325	\$34,756,994
1925.....	37,675,078	38,146,949
1926.....	38,010,288	39,445,087
1927.....	39,987,465	42,399,245

<sup>1</sup> Each year's total revenues include revenues attributable to such year's budget collected during the liquidation period thereof (January through April of the following year). Total revenues as stated are exclusive of the proceeds of loans.

## FOREIGN TRADE

Exports from Peru have exceeded imports for every year for which figures are available, excepting two. Figures for recent years follow:

	Exports	Imports	Excess of exports
1923.....	\$68,438,557	\$58,083,782	\$40,354,775
1924.....	101,713,227	73,019,143	28,694,084
1925.....	87,437,486	73,457,376	13,980,112
1926.....	89,873,059	73,347,873	16,525,186
1927.....	116,367,517	72,279,246	44,088,268

NOTE.—Converted at average rates of exchange for the respective years.

## REDEMPTION AND SINKING FUND

A cumulative sinking fund will be provided, calculated to retire all second-series bonds by maturity through semiannual drawings by lot for redemption at principal amount and accrued interest upon 30 days' notice.

The bonds will also be subject to redemption, in whole or in part, at the option of the Republic, on any interest date, at principal amount and accrued interest, upon 60 days' notice published in New York City.

All conversions herein made from Peruvian pounds into United States dollars have, unless otherwise stated, been made at \$3.83 per pound, the average rate for the 3-year period 1925, 1926, and 1927. The present value of the Peruvian pound is about \$4. Conversions from pounds sterling into dollars have been made at \$4.8665 per pound sterling.

M. G. MASIAS,

*Minister of Finance of the Republic of Peru.*

Total amount of 62 issues originated by Lee, Higginson & Co., \$502,765,500.

Lee, Higginson & Co. participated to the extent of \$231,780,000 in 205 issues originated by others to the amount of \$6,579,405,000.

Total gross profit to Lee, Higginson & Co. out of issues originated by it was \$6,102,766; and its gross profit from its participation in syndicates originated by others was \$8,056,663.

Out of the \$502,765,500 originated by Lee, Higginson & Co., approximately \$200,000,000 have been retired out of the \$6,579,405,000 in which we participated—approximately \$3,200,000,000 have been retired. "

Out of the \$502,765,500 issued by Lee, Higginson & Co., there are \$16,923,000 now in default, and there is the likelihood of default in an amount of \$26,630,000. No default has occurred through insolvency of the borrower or repudiation of the obligation but have occurred through exchange difficulties and local currency is being deposited in favor of the loans.

Date offered	Name of issue	Amount of issue	Amount outstanding	Cost to purchase group	Cost to public	Total spread	Commissions				Participation of Lee, Higginson & Co., in—				Gross profit of Lee, Higginson & Co., as—				Bonds sold by Lee, Higginson & Co.					
							Purchase group	Banking group	Syndicate	Selling group	Purchase group	Banking group	Syndicate	Selling group	Purchase commission	Banking commission	Syndicate commission	Selling commission	Total	Wholesale	Retail			
<b>AUSTRALIA</b>																								
Feb. 8, 1928	Brisbane, city of, sinking fund 5's, 1958	\$7,500,000.00	\$7,219,000.00	92.78	94½	1.72	47.00				1¼			\$7,500,000.00			\$1,375,000.00	\$35,250.00	\$17,187.50	\$52,437.50	\$4,175,000.00	\$1,375,000.00		
June 3, 1930	Brisbane, city of, sinking fund 6's, 1950	5,000,000.00	4,923,000.00	92½	96½	4¼	1¼				2¼			2,500,000.00	\$1,722,000.00		887,000.00	31,250.00	\$12,915.00	19,857.50	84,122.50	2,688,000.00	857,000.00	
Mar. 24, 1917	Melbourne Electric Supply Co. 6's, 1922	1,250,000.00	(1)	91.84	96½	4.91	1.16				1¼			1,250,000.00		\$675,000.00	649,500.00	14,500.00		9,742.50	39,430.00	790,000.00	649,500.00	
Feb. 1, 1922	Melbourne Electric Supply Co. sinking fund 7½'s, 1940	2,500,000.00	2,261,000.00	90¼	101.00	6¾	3¾				3.00			2,500,000.00			1,500,000.00	93,750.00		45,000.00	138,750.00	1,050,000.00	1,500,000.00	
<b>AUSTRIA</b>																								
Oct. 28, 1925	European Mortgage & Investment Corporation sinking fund 7½'s, 1930	2,400,000.00	180,000.00	86.00	92.00	6.00	2.00						4.00	1,200,000.00		1,168,500.00		24,000.00		46,740.00	70,740.00	725,000.00	1,168,500.00	
<b>BELGIUM</b>																								
Feb. 8, 1922	Solvay & Co. 6's, 1934	10,000,000.00	(1)	96.60	99½	2.90	1.90							6,000,000.00				2,500,000.00	114,000.00		25,000.00	139,000.00	4,925,000.00	2,500,000.00
<b>BRAZIL</b>																								
Apr. 18, 1922	Paulista Ry. Co. sinking fund 7's, 1942	4,000,000.00	2,704,500.00	90.00	90.00	9.00	6.00							1,850,000.00				2,130,000.00	111,000.00		63,900.00	174,900.00	1,605,000.00	2,130,000.00
Jan. 23, 1925	Porto Alegre, city of, sinking fund 7½'s, 1960	4,000,000.00	3,890,000.00	88½	96.00	7¼	4¾							2,000,000.00				1,900,000.00	95,000.00		57,000.00	152,000.00	1,630,000.00	1,870,000.00
Jan. 13, 1928	Porto Alegre, city of, sinking fund 7's, 1960	2,250,000.00	2,211,000.00	92.00	97½	5½	3.00							1,125,000.00				1,575,000.00	37,500.00		39,375.00	73,125.00	1,575,000.00	1,575,000.00
Nov. 15, 1921	Rio Grande do Sul, State of, sinking fund 5's, 1940	10,000,000.00	5,900,500.00	91.00	99½	8½	5.00							5,000,000.00				2,881,000.00	250,000.00		100,835.00	350,835.00	6,819,000.00	2,881,000.00
Jan. 18, 1927	Rio Grande do Sul, State of, sinking fund 7's, 1960	10,000,000.00	9,713,000.00	92.00	98.00	6.00	3.00		1½					5,000,000.00	4,500,000.00			4,675,000.00	150,000.00	67,500.00	116,875.00	334,375.00	3,910,000.00	4,675,000.00
Jan. 23, 1922	Porto Alegre, city of, sinking fund 8's, 1961	3,500,000.00	3,320,000.00	91.00	99.00	8.00	5.00							1,750,000.00				1,000,000.00	87,500.00		30,000.00	117,500.00	2,250,000.00	1,000,000.00
<b>CANADA</b>																								
Apr. 8, 1920	Bell Telephone Co. of Canada 7's, 1925	5,500,000.00	(1)	93¼	98.00	4¾	1¼							1,017,500.00				815,000.00	12,718.75		24,450.00	37,168.75	3,800,000.00	815,000.00
Jan. 27, 1925	Bell Telephone Co. of Canada 5's, 1955, series A	25,000,000.00	30,000,000.00	95.00	98.00	3.00	1½		½	2.00				7,333,333.00	5,617,000.00	3,003,000.00		36,666.67	28,085.00	60,060.00	124,811.67	7,370,000.00	3,003,000.00	
Oct. 9, 1925	do	5,000,000.00		96½	99.00	2½	1.00							1,566,666.00				2,500,000.00	25,000.00	6,250.00	18,180.00	31,846.66	1,212,000.00	1,212,000.00
May 26, 1927	Bell Telephone Co. of Canada 5's, 1957, series B	10,000,000.00		100.00	102½	2½	1.00		¾					2,500,000.00	2,500,000.00			3,750,000.00	46,875.00		103,125.00	160,000.00	2,500,000.00	2,500,000.00
Mar. 4, 1929	do	15,000,000.00	30,000,000.00	97¼	100.00	2¾	1¼							3,750,000.00				1,575,000.00	39,375.00		39,375.00	78,750.00	3,750,000.00	3,750,000.00
Feb. 13, 1930	do	5,000,000.00		97½	100.00	2½	2½							1,575,000.00				1,875,000.00	6,250.00	14,625.00	28,125.00	49,000.00	1,575,000.00	1,575,000.00
June 16, 1930	Bell Telephone Co. of Canada 5's, 1960, series C	7,500,000.00	7,500,000.00	90.00	101½	1½	¾		¾					2,500,000.00	1,950,000.00			325,000.00	890.62	406.25	1,296.87	100,000.00	325,000.00	
Dec. 31, 1915	Canada Consolidated Rubber Co. (Ltd.) 5's, 1918	475,000.00	(1)	99½	100.00	1½	¾							237,500.00				250,000.00	12,500.00		12,500.00	186,000.00	250,000.00	
Jan. 15, 1917	Cape Breton Pulp & Paper Co. (Ltd.) 6's, 1932	500,000.00	350,000.00	94.00	99.00	5.00	5.00							1,800,000.00				1,003,000.00	12,500.00		15,045.00	29,625.00	5,977,000.00	1,003,000.00
Sept. 21, 1921	Ontario, Province of, 6's, 1943	10,000,000.00	114,500,000.00	96.69	99.00	2.31	.81							900,000.00				490,000.00	6,300.00		7,350.00	13,650.00	3,185,000.00	490,000.00
Sept. 28, 1921	do	5,000,000.00		96.80	99.00	2.20	.70							750,000.00				457,000.00	18,750.00		11,425.00	30,175.00	1,048,500.00	457,000.00
Mar. 3, 1921	Shawinigan Water & Power Co. sinking fund 6's, 1950	2,500,000.00	(1)	85½	90½	4.9906	2.4906							562,500.00				237,000.00	14,009.63		5,925.00	19,934.63	821,000.00	237,000.00
July 13, 1921	do	1,875,000.00	(1)	85.5094	90½	4.9906	2.4906							333,500.00				8,337.50			8,337.50	333,500.00	333,500.00	
Sept. 8, 1922	do	1,111,500.00	(1)	102	104½	2½	1½							900,000.00				635,000.00	12,870.00		9,525.00	22,395.00	1,775,000.00	635,000.00
Sept. 14, 1921	Toronto, city of, 4½'s, 1953	4,000,000.00	4,000,000.00	73.57	76½	2.93	1.43							587,500.00				348,000.00	2,761.25		4,350.00	7,111.25	365,000.00	348,000.00
Jan. 10, 1924	do	3,000,000.00	3,000,000.00	88.53	90¼	1.72	.47																	
<b>CHINA</b>																								
May 4, 1916	Republic of China, Government of, 6's, 1919	1,186,000.00	(1)	93	95	2								1,186,000.00							23,720.00	23,720.00		1,186,000.00
<b>DOMINICAN REPUBLIC</b>																								
Apr. 5, 1922	Dominican Republic sinking fund 5½'s, 1942	6,700,000.00	8,314,500.00	90½	94½	4	1			3				2,715,000.00		1,870,000.00			27,160.00		56,100.00	83,260.00	3,903,000.00	1,337,000.00
Sept. 26, 1924	Dominican Republic 5½'s, 1928	2,500,000.00	(1)	95½	100	1½	1½							1,013,000.00				15,195.00			15,195.00	1,013,000.00	1,013,000.00	
Apr. 1, 1926	Dominican Republic sinking fund 5½'s, 1942	3,300,000.00		95.77	98	2.23	.70							2,338,000.00				750,000.00	9,767.40		11,250.00	21,017.40	1,353,000.00	750,000.00
Jan. 10, 1927	Dominican Republic sinking fund 7's, 1940	5,000,000.00	4,140,000.00	98.07	100	1.93	.93							1,519,000.00				1,215,000.00	14,126.70		12,150.00	26,276.70	1,169,000.00	1,215,000.00
Jan. 27, 1928	do	5,000,000.00	4,140,000.00	97.29	99¼	1.96	.96							1,062,000.00				1,198,000.00	10,195.20		11,980.00	22,175.20	1,500,000.00	1,198,000.00
<b>FINLAND</b>																								
July 4, 1924	Industrial Mortgage Bank of Finland sinking fund 7's, 1944	12,000,000.00	7,800,000.00	89	95	6	1	1	4					3,175,000.00	2,536,500.00	1,500,000.00			31,750.00	25,365.00	60,000.00	117,115.00	6,235,500.00	1,500,000.00
<b>GERMANY</b>																								
May 17, 1928	Brown Coal Industrial Corporation sinking fund 6½'s, 1953	2,000,000.00	1,867,000.00	90	93½	3½	1							2,000,000.00				950,000.00	20,000.00		23,750.00	43,750.00	1,050,000.00	950,000.00
Aug. 2, 1927	Central Bank of Germany State and Provincial Bank sinking fund, series A, 6½'s, 1953	5,000,000.00	4,394,000.00	91½	95	3½	½	1	2					3,500,000.00	2,500,000.00			964,000.00	17,500.00	25,000.00	19,280.00	61,780.00	2,286,000.00	964,000.00
Oct. 10, 1927	Central Bank of Germany State and Provincial Bank sinking fund, series B, 6's, 1951	10,000,000.00	8,908,500.00	92	95	3	½	½	2					10,000,000.00	8,000,000.00			4,000,000.00	50,000.00	40,000.00	80,000.00	170,000.00	7,690,000.00	1,485,000.00
June 1, 1928	Consolidated Agriculture Loan of Germany Provincial and Commercial Bank sinking fund, series A, 6½'s, 1958	25,000,000.00	22,450,000.00	94½	97½	3	1¼	1½	2					18,750,000.00	7,853,750.00			2,462,500.00	93,750.00	36,768.75	49,250.00	179,768.75	16,962,500.00	2,462,500.00
Nov. 20, 1925	Good Hope Steel & Iron Works sinking fund 7's, 1945	7,500,000.00	6,983,500.00	83	91	8	4	4½	4					3,750,000.00				1,758,000.00	93,750.00	29,000.00	79,110.00	201,860.00	3,228,000.00	1,750,000.00
Feb. 11, 1926	do	2,500,000.00		83	92	9	4	1	4					1,250,000.00	1,141,000.00			1,020,000.00	50,000.00	11,410.00	40,800.00	102,210.00	1,190,000.00	1,020,000.00
Aug. 31, 1927	Hanover, Province of, series 1 6's, 1957	1,000,000.00	1,000,000.00	91½	95	3½	1½							1,000,000.00				36,250.00			36,250.00	1,000,		

Main table with columns: Date offered, Name of issue, Amount issued, Amount outstanding, Cost of purchase group, Cost to public, Total spread, Commissions received by (Purchase group, Banking group, Syndicate, Selling group), Participation of Lee, Higginson & Co., in- (Purchase group, Banking group, Syndicate, Selling group), Gross profit of Lee, Higginson & Co., as- (Purchase commission, Selling commission, Syndicate commission, Total), Bonds sold by Lee, Higginson & Co. (Total, Wholesale, Retail).

\* Maturity. † Per cent discount. ‡ Per cent basis less one-half per cent. § Per cent basis. ¶ Per cent. \*\* Exchange for equal par values Cuba Cane preferred. \*\*\* Net loss to Lee, Higginson & Co. this issue \$2,177.32. \*\*\*\* Without profit. \*\*\*\*\* Per bond.

Senator JOHNSON. Sixty-two issues were originated by Lee, Higginson & Co., amounting to \$502,765,500, and you participated in 205 issues originated by others in the amount of \$6,579,405,000?

Mr. MURNANE. Yes; to the extent, Senator, of \$228,814,500.

Senator JOHNSON. The gross profit of Lee, Higginson & Co. out of the issues originated by them was \$6,102,766, and the gross profit from participation in syndicates originated by others was \$8,056,663?

Mr. MURNANE. Yes. That is since January 1, 1914, Senator.

Senator JOHNSON. Making \$14,158,000?

Mr. MURNANE. Yes, sir.

The CHAIRMAN. Have you given the net profit?

Mr. MURNANE. No; I have not, Senator. I have no records of that.

Senator JOHNSON. I turn first, if you please, Mr. Murnane, to the issues that are in default. There are now \$16,923,000 in default, that were issued by Lee, Higginson & Co., and there is a likelihood of default, you state here, in the amount of \$26,630,000?

Mr. MURNANE. That is true, Senator; and the point where I mention the likelihood refers to the fact that governments have issued decrees controlling exchange, and our coupon date has not come yet, and we know that when our coupon date does come they will be prevented from transmitting the exchange. So I thought it would give you a clearer record.

Senator JOHNSON. Has any government issued its decree save Colombia?

Mr. MURNANE. Yes; Brazil has and Hungary has, which are the cases with which we are concerned, and that affected those totals. I might say that none of those issues have defaulted through insolvency of the debtor. They are entirely the result of control of exchange by the government. Otherwise there are no issues in default.

I have one other exception to make in order to be clear, Senator. The Dominican Republic has not defaulted on interest but it is not paying the sinking fund.

The CHAIRMAN. What country is that?

Mr. MURNANE. The Dominican Republic.

The CHAIRMAN. That is a small amount, is it not?

Mr. MURNANE. I think it is not so small, Senator. It is something in the neighborhood of \$20,000,000.

Senator JOHNSON. Have you a copy of your statement there?

Mr. MURNANE. Yes, Senator.

Senator JOHNSON. These German issues are in such very small type that it is difficult for me to read them. Would you state the dates of those German issues and what they are?

Mr. MURNANE. Yes. The first is an issue of \$2,000,000 to the Brown Coal Industrial Corporation, mining a type of coal referred to as brown coal in Germany.

Senator JOHNSON. What is the date?

Mr. MURNANE. May, 1928.

The next issue was the Central Bank of German State and Provincial Banks, \$5,000,000, made on August 2, 1927.

The next is the same name, an issue of \$10,000,000 on October 10, 1927.

The next is the consolidated agricultural loan of the German Provincial and Communal Banks, \$25,000,000, dated June 1, 1928.

The next is a loan of \$7,500,000 to the Good Hope Steel & Iron Works, made on November 20, 1925, and a further issue to the same company of \$2,500,000 made on February 11, 1926.

Senator JOHNSON. Have you the prospectuses on these first four loans which you read?

Mr. MURNANE. Yes, sir; I have them right here.

Senator JOHNSON. Will you do me the kindness to produce one of them?

Mr. MURNANE. Certainly, sir (handing Senator Johnson a document).

There are several more German issues on the next page, Senator.

Senator JOHNSON. I will take this up for the moment. Do you know whether or not your house received a letter that was written by Secretary Kellogg in 1926?

Mr. MURNANE. It did receive it, I am sure, Senator. I was not a member of the firm at that time. I was not with the firm, but I know they did receive it.

Senator JOHNSON. Do you know whether or not they paid any attention to it?

Mr. MURNANE. I can not speak with first-hand knowledge, but I have asked the question, and I have seen it in the press yesterday. Yes, Senator; I think that they did pay attention to it, in this sense, that it was a matter that anybody would have to pay attention to, because it raised the question of our responsibility toward investors, and my recollection of it is that it raised the question in two respects: One, having to do with the application of article 248 of the treaty of Versailles as to the goodness of the loans, or the effect that the application of that article might have on the goodness of the loans; second, the question of the problems that might arise in the transfer committee with respect to priority, if you may call it that, of reparations transfers over transfers for the service of the existing German loans.

The reception that it had—and I speak more at the moment from my observation of bankers in general in the city, with whom I was in contact, and I think it would apply to my own firm as well—was that the information that it contained and the suggestions that it made had been very much in their minds all along. Article 248 of the treaty had been, I think, in the minds of all responsible bankers throughout the whole period of their issues. I think it was generally interpreted that the problem that was involved in that article applied to obligations of the German Government and to obligations of the States; that it did not apply, except in the limited degree of certain specific instances, against industrial firms or even against municipalities.

On the question of warning to the clients, I believe—and here I can not speak with final accuracy—that every responsible banker in New York who issued a loan that involved the application of that article put it right in the prospectus.

I recall certain cases, like the State of Prussia loan, which was perhaps the most historic case of that kind arising, where the whole content of article 248 was put on the front page of the prospectus, and appeared in the newspapers as well as in the individual prospectuses in that form; so that, again, while I can not assume respon-

sibility for the entire community, I think that there was due regard paid to that in the sense of calling to the attention of investors the fact that that was a question that had to be measured.

On the second question, the problem of transfer, I think that all serious bankers concerned themselves a great deal on the subject as to whether the loans they were making might at some moment have their service interrupted by virtue of the transfer committee claiming a prior right to distribute exchange in favor of reparations should there not be enough to go around.

I think that in general it was the judgment that that was not apt to be a practical problem, because should that question arise and should that act be taken by the transfer committee it would kill at the same moment the possibility of reparation transfer in the future.

That question I think was in general treated seriously, but, as a matter of business judgment, was not regarded as a compelling factor in the situation. I think that events have borne that out. The problem that was pointed out there did arise. The Young plan when drawn discontinued the transfer committee, and it was not thereafter regarded that that was a problem in the same sense that it had been a problem in the past. The actual transfer difficulties that have arisen have arisen not out of the application or the preference for reparations, but have arisen primarily out of the withdrawal of credit from Germany, which again, of course, arose out of many causes.

I think that that is as nearly as I can make a statement on it.

Senator JOHNSON. I have been interested in listening to you in respect to it. Pardon me if I may be in error about this, but have you taken some part in the agitation for the cancellation of foreign debts?

Mr. MURNANE. No, sir; I have never taken any part in that.

Senator JOHNSON. Pardon the question, then.

Mr. MURNANE. I consulted a great deal with foreign governments on the question as it pertained to their own finances, but, Senator, I have never once taken the position of apology. I think that we had a perfect right to collect our debts. Nor have I ever put myself in the position of sympathizing with a general program of cancellation of those debts.

Senator JOHNSON. I am very glad to hear it.

Mr. MURNANE. I state that only as a matter of fact, not that it deserves any commendation. Sometimes at home I have different views, but not abroad.

Senator JOHNSON. I was wondering whether those views at home you have been engaged in suggesting.

Mr. MURNANE. No; I have not, Senator. I have views on the subject, but—

Senator JOHNSON. I do not doubt that.

Mr. MURNANE. But I have not preached them publicly at all.

Senator JOHNSON. I was mistaken in the identity of the one I had in mind, unquestionably, from what you say.

You did not deem it essential, because you thought that did not relate to this kind of a loan, I assume, to state anything concerning the letter of the Secretary of State in your prospectuses, did you?

Mr. MURNANE. No; I think not, Senator.

Senator JOHNSON. You deem them of a different character from what he referred to?

Mr. MURNANE. Well, except on the problem of exchange transfer. His point might have been well taken there. We did not judge it was a necessary thing, because we did not regard that risk as a vital one.

Senator JOHNSON. You are familiar with the report that was made by S. Parker Gilbert on the 6th of November, 1927, are you not?

Mr. MURNANE. I was familiar with it at the time, and I think I can recall the general content.

Senator JOHNSON. His conclusion was that Germany was over-borrowed.

Mr. MURNANE. I can not really discuss it accurately, because I do not recall its terms. I have the impression, Senator, from my own observation of the situation, that Parker Gilbert's principal desire was to curb the borrowing tendencies of some of the governmental units in Germany. I do not think it was aimed primarily at foreign borrowing as such. But, as I say, I may be mistaken, because I have not recently reviewed it.

Senator JOHNSON. He was referring to German loans, of course. I am not speaking of any others.

Mr. MURNANE. I meant it in this sense, that as I saw Parker Gilbert's efforts he wanted to stop or help to reduce any extravagances that existed in German municipal operations or State operations in particular; and while at home their capacity to spend was somewhat controlled by the necessity for taxation, there was a loophole in their ability to borrow abroad, and I think he aimed more at stopping that loophole than he was aiming at the cessation of the flow of foreign capital. I may be wrong.

Senator JOHNSON. You may be entirely right, for all I know. I take simply his words, in which he said literally that Germany was overborrowed. Did you observe that?

Mr. MURNANE. As I say, Senator, it is a long time since I read his document, and I can not be precise about it.

Senator KING. Would it interrupt you if I asked a question at this time, Senator Johnson?

Senator JOHNSON. Oh, no.

Senator KING. Did you investigate the condition of the industrialists who were applying in the United States for loans? I am speaking of the German industrialists.

Mr. MURNANE. Those who approached my firm for loans?

Senator KING. Yes.

Mr. MURNANE. Oh, yes; very thoroughly.

Senator KING. Do you know, generally speaking, the industrialists in Germany that have borrowed in the United States?

Mr. MURNANE. I can call off quite a lot of them to you, Senator.

Senator KING. Have any of them defaulted?

Mr. MURNANE. I think not.

Senator KING. Have they overborrowed, so far as your experience and observation go?

Mr. MURNANE. It is quite a hazardous answer that I make. I do not believe it could be so charged, Senator.

The CHAIRMAN. In ordinary times it would not have been thought that they were overborrowing?

Mr. MURNANE. No, sir; I do not think so. I might be proved wrong undoubtedly by an acute examination of every case, but I do not feel that the principal industrial concerns there overborrowed. You can measure that in many ways. Of course here when an industrial company borrows, we expect it to have a very beautiful position of liquid capital. I think in Germany in many cases, while the liquid capital was very much less, they had really very substantial amounts of worth that made the loans on the whole very safe.

Senator KING. Did your company, or any company, so far as you know, attempt to ascertain about the proportion of industrial loans, municipal, state, and governmental loans in Germany?

Mr. MURNANE. Senator, I can only answer for myself, but certainly we were conscious of the fact that there is a relationship between the goodness of an independent industrial company and the status of public credit; that is, if public credit is abused, then the taxation that may follow can seriously hurt the company that we have financed that in itself looks to be in excellent condition.

Senator KING. I was just curious to know if there had been a tabulation showing the industrial loans made in Germany by American bankers and the loans made to municipalities, the states and the German Government.

Mr. MURNANE. I am sure there are such tabulations available, Senator, and I am sure that I can put my hands on them readily and furnish them to the committee.

Senator KING. For my information, if not for other members of the committee, I would like to obtain it.

Mr. MURNANE. It may be that I have them here with me, but I doubt it.

(See statement read into the record by Senator King at the conclusion of Mr. Murnane's testimony.)

The CHAIRMAN. Have you made any loans to Germany, that is, your company, that are now in default either as to interest or sinking fund?

Mr. MURNANE. None. I think that there are no German loans publicly placed in the United States in default, and I think it can be said that there are no German credits here in default.

The CHAIRMAN. Most of them are in South America?

Mr. MURNANE. I think most of the defaults are in South America, yes; by far the largest amount.

Senator JOHNSON. Have you any short-term credits in Germany?

Mr. MURNANE. Yes; we have.

Senator JOHNSON. About what sum, please?

Mr. MURNANE. I have not got those figures with me, Senator. I will be glad to furnish them to you confidentially, if I may—or would you rather have me guess at them here?

Senator JOHNSON. I do not care to have you guess, but if you can make an approximation it would be better, and I will not need to trouble you further.

Mr. MURNANE. We have two classes of credits: One, the normal commercial credit that we carry on import and export transactions. I think there is a total of about \$7,000,000 involved in that. We have, in addition to that, credits that have been granted, in one case,

I think, to the city of Hamburg. I think that is a participation in somebody else's credit. That is \$150,000, approximately; and we have a credit to the German Government amounting in total to \$125,000,000, of which we have, I think, twelve and a quarter million. There may be some small ones other than that.

Senator JOHNSON. In the last named, with whom were you interested?

Mr. MURNANE. In the last named there were, I suppose, 35 or 40 banks throughout the country, Senator. I think they comprise most of the leading banks in the country. There were a few exceptions to that, but other than that you can include almost every leading bank. I will try to recollect the names if you want them.

Senator JOHNSON. I want to know the principal ones. I am not asking for those who had just small sums.

Mr. MURNANE. It includes the Chase Bank, the Irving Trust Co., First National Bank of Boston, New York Trust Co., Bankers Trust Co. I think the Guaranty Trust was not a member of that group. It includes almost all of the conspicuous banks.

Senator JOHNSON. The sixth loan to Germany that you have here was what date, if you please?

Mr. MURNANE. February 11, 1926. That was the second Good Hope one.

Senator JOHNSON. The Good Hope Steel Works?

Mr. MURNANE. The Good Hope Steel & Iron Works.

Senator JOHNSON. Did you have any intermediary in making these loans?

Mr. MURNANE. No, Senator.

Senator JOHNSON. I notice the Province of Hanover. Can you give me the date? I can not make it out here.

Mr. MURNANE. Province of Hanover, August 31, 1927; in the first case, and the second loan, January 28, 1929.

Senator JOHNSON. And the Leipzig City Bank?

Mr. MURNANE. September 9, 1927; and then you will note the Rhine-Main-Danube Corporation, October 5, 1925.

Senator JOHNSON. What was the Rhine-Main-Danube Corporation?

Mr. MURNANE. A publicly-owned corporation that has been constructing a canal in Germany, and the obligation is guaranteed by the German Government.

Senator JOHNSON. You have no Italian loan that has not yet matured, have you?

Mr. MURNANE. No, sir; we have not.

Senator JOHNSON. I observe that you have a loan of Japan?

Mr. MURNANE. Yes.

Senator JOHNSON. 1925?

Mr. MURNANE. 1925; yes.

Senator JOHNSON. An electric company loan?

Mr. MURNANE. Yes; a public utility loan.

Senator JOHNSON. \$14,000,000?

Mr. MURNANE. Yes.

Senator JOHNSON. Were you the original sponsor of that loan?

Mr. MURNANE. Yes.

Senator JOHNSON. Will you call off the loans that have defaulted, or may be expected to default please?

Mr. MURNANE. Yes. Paulista Railways in Brazil—

Senator JOHNSON. What date?

Mr. MURNANE. 1922. The city of Porto Alegre, 1926, second loan. The CHAIRMAN. Give us the amount of each one.

Mr. MURNANE. In the first instance, the Paulista Railways was \$4,000,000. The city of Porto Alegre, loan issued in 1926, was \$4,000,000. The second loan to the city of Porto Alegre, \$2,250,000, in March, 1928. The State of Rio Grande do Sul, November 15, 1921, \$10,000,000. A second loan to the State of Rio Grande do Sul of \$10,000,000, dated January 18, 1927, and a loan to the city of Porto Alegre in 1922 of \$3,500,000.

The CHAIRMAN. About \$34,000,000?

Mr. MURNANE. Yes. Those are the original amounts. They have been reduced since then.

Senator JOHNSON. The total amount is given at the bottom of the list here as \$33,750,000. The amount outstanding now is \$27,739,000. Is that correct?

Mr. MURNANE. I think so.

Senator JOHNSON. In the first of these loans, the Paulista Railways, the cost to you was 90?

Mr. MURNANE. Yes, sir.

Senator JOHNSON. The cost to the public was 99?

Mr. MURNANE. Yes.

Senator JOHNSON. In the first instance was anybody connected with you in the purchase of those securities?

Mr. MURNANE. Yes. Ladenburg, Thalmann and Company really negotiated all but one of those Brazilian issues, and brought the business to us because we had greater facilities in the distribution of the securities.

Senator JOHNSON. Then you two were the progenitors or sponsors of the loan in the first instance?

Mr. MURNANE. Yes.

Senator JOHNSON. Take the next one, Porto Alegre; that is a \$4,000,000 loan?

Mr. MURNANE. Yes.

Senator JOHNSON. Bought at 88¼?

Mr. MURNANE. Yes.

Senator JOHNSON. Sold at 96?

Mr. MURNANE. Yes. There is a column that shows the spread there, if you want it.

Senator JOHNSON. Yes; I have that.

Was that purchased by you alone?

Mr. MURNANE. It was purchased by Ladenburg, Thalmann and Company and ourselves. They negotiated these issues and we joined in their distribution.

Senator JOHNSON. The next is Porto Alegre, \$2,250,000, bought at 92 and sold at 97½?

Mr. MURNANE. That is right.

Senator JOHNSON. The same firms?

Mr. MURNANE. Yes, sir.

Senator JOHNSON. The next is Rio Grande do Sul, \$10,000,000, bought at 91, sold at 99½?

Mr. MURNANE. Yes.

Senator JOHNSON. The same firms, or you alone?

Mr. MURNANE. The same firms.

Senator JOHNSON. The next, Rio Grande do Sul, \$10,000,000, bought at 92, sold at 98. The same firms?

Mr. MURNANE. Yes.

Senator JOHNSON. The next, Porto Alegre, \$3,500,000, bought at 91, sold at 99.

Mr. MURNANE. The same companies.

Senator JOHNSON. Did you have any intermediary in the purchase of any of those?

Mr. MURNANE. No; we had no intermediaries at any time, Senator, that I know of. There is only one negotiation that we ourselves conducted in Brazil. It was the second of the Rio Grande do Sul loans. We dealt there with a local banking house; we very frequently do; and they received a commission on that loan from us. I believe it is probably the same house that Ladenburg, Thalmann had dealt with in the past. That house watches things for us and keeps us informed about the position of the government. We used it to keep abreast of developments after the loans had been made; and that is, with us, a normal practice, to cooperate with a bank where the borrower is far distant and to pay some reasonable sum whenever there is business involved.

Senator JOHNSON. What do you mean by a reasonable sum?

Mr. MURNANE. I think the figure that was paid was \$10,000.

Senator JOHNSON. You have in your dealings of this sort, for instance, in Brazil, an original agreement, do you not, or a contract by which you agree to make the loan, that specifies various conditions upon which it is to be made, and the like?

Mr. MURNANE. I think so.

Senator JOHNSON. Did you have any subsequent contract as to the disposition of the bonds?

Mr. MURNANE. I would say no. I may be missing the significance of your question.

Senator JOHNSON. I mean, not with those who joined with you in the distribution, but I mean with the Brazilian Government.

Mr. MURNANE. No. I think we have no contract except the contract under which we purchased the bonds.

Senator JOHNSON. Are you familiar with any contracts that have been made by banking houses with South American countries whereby they have an agreement with that particular country or a political subdivision in reference to the division of commissions?

Mr. MURNANE. No; I am not.

Senator JOHNSON. You have no familiarity with anything like that?

Mr. MURNANE. I know very little about South American business. This is practically the only South American business we have originated, in that one State in Brazil, Rio Grande do Sul.

Senator JOHNSON. Your business has been outside of South America and Latin America, generally speaking?

Mr. MURNANE. Yes.

Senator JOHNSON. Will you state now what other issues here are in default or may be in default?

Mr. MURNANE. The first one is the Dominican Republic. The Dominican Republic is not in default on its interest payments. It is in default on its sinking-fund payments.

Senator JOHNSON. And that applies to all of these issues?

Mr. MURNANE. Yes.

Senator JOHNSON. There are five issues, I observe, with the Dominican Republic, beginning in 1922, and, if I read the figures correctly, concluding in 1928. Is that right?

Mr. MURNANE. That is right.

Senator JOHNSON. Those five issues aggregate \$22,500,000?

Mr. MURNANE. Yes.

Senator JOHNSON. The amount outstanding is \$16,594,500; is that correct?

Mr. MURNANE. Yes.

Senator JOHNSON. Two of those issues, I take it from the note here, have matured?

Mr. MURNANE. Only one has matured.

Senator JOHNSON. That probably is the second one, from the juxtaposition of the printing?

Mr. MURNANE. Yes, sir; \$2,500,000; a short-term transaction.

Senator JOHNSON. You look forward to a possible default in the payment of those loans, do you?

Mr. MURNANE. We do not think so, Senator. You remember with respect to the Dominican Republic that there is a convention between the United States Government—

Senator JOHNSON. Senator King knows more about the Dominican Republic, I will say, than any of the rest of us, so he will follow you closely.

Mr. MURNANE. There is a convention between the Dominican Republic and the United States by virtue of which a receiver of customs is appointed by the United States Government.

Senator KING. It has been so for many years.

Mr. MURNANE. I think these are all the outstanding issues under that régime. The convention requires that the customs proceeds shall pass to that agency. The world depression, plus the hurricane in Santo Domingo, has so affected—

Senator KING. And the fall in the price of sugar.

Mr. MURNANE. Yes—has so affected the finances of Santo Domingo that while there is actually a sufficient amount of customs revenues to pay all the interest and to pay part of the total sinking fund, the Government of Santo Domingo passed legislation whereby they simply gave the interest priority, but they withdrew for other purposes the moneys that otherwise would have gone to the sinking fund. That is in direct contradiction to the convention, but it seems the part of common sense, the Dominicans not having abused the convention at all, but acts of God having put them in this position, that no action under the convention be taken by the United States Government; and our position has been that that, again, seemed common sense, and we have taken no action beyond advising the bondholders. The probabilities are that those revenues in more settled times will increase again and that amortization will be renewed.

The CHAIRMAN. Have they paid their interest?

Mr. MURNANE. Yes; regularly, Senator.

Senator KING. Of course, if they used the funds for the payment of the sinking fund it would have left them without operating ex-

penses and they would have had to seek a loan in order to meet their operating expenses or have the Government partially collapse.

Mr. MURNANE. Yes. On the other hand, there is no question about the right of the bondholders to those sinking-fund payments. It is judgment that you have to exercise in favor of keeping somebody alive, if you please. They are doing all that is within their power, and I think the State Department so judged, and I am sure we so judged.

Senator JOHNSON. What other, if any, do you look forward to as a defaulting issue?

Mr. MURNANE. The Hungarian Government has recently issued decrees in control of exchange which will probably prevent the purchase of exchange for the satisfaction of the services on this list of Hungarian issues cited here. The interest and sinking fund will remain and accumulate in local currency against the time when exchange transfers can be made normally again. That is also true in Brazil, Senator, that the payments are being made in local currency.

Senator JOHNSON. I just want to get the amount of these Hungarian loans. The amount of the loans is \$20,348,000?

Mr. MURNANE. No; that was the original amount. There remains outstanding now—

Senator JOHNSON. \$15,814,500?

Mr. MURNANE. Yes, sir.

Senator JOHNSON. Are there any others?

Mr. MURNANE. No, sir; I think there are no others.

Senator JOHNSON. There are no others that you know of that are in default?

Mr. MURNANE. No, sir; I think there are no others in default or threatening default.

Senator JOHNSON. I observe an enormous amount of Canadian loans here. They amount to what sum?

Mr. MURNANE. \$101,000,000; and there remains outstanding \$89,000,000.

Senator JOHNSON. Of all your Canadian loans? Do they not go far beyond that?

Mr. MURNANE. Oh, I see. There is a larger list of others that we have joined in, Senator. We have not got that totaled.

Senator KING. Were you the sole floater of those loans?

Mr. MURNANE. We were the negotiators and issuers and we had partners under us in the business.

Senator JOHNSON. The second one of these loans in which you participated was the Aluminum Co. (Ltd.), June 6, 1928?

Mr. MURNANE. Yes; that is right.

Senator JOHNSON. \$20,000,000?

Mr. MURNANE. Yes, sir.

Senator JOHNSON. The total amount of the issue was \$20,000,000?

Mr. MURNANE. Yes.

Senator JOHNSON. Is that the only one of the Aluminum Co. that you were interested in?

Mr. MURNANE. I think that is the only one, Senator.

Senator JOHNSON. Who were the sponsors of that particular loan?

Mr. MURNANE. The Union Trust Co. of Pittsburgh.

Senator JOHNSON. That is all I care to ask this gentleman,

Senator KING. Mr. Chairman, I asked the witness a moment ago if he had any figures showing loans made to the various countries of Europe, and those to the provinces and municipalities and to private corporations, and the total. I think my question, however, was limited to Germany.

Mr. MURNANE. Yes, Senator.

Senator KING. I have been handed a document treating of American investments abroad, emanating from the Department of Commerce, dated September, 1931. In the foreword it states that American portfolio investments in Europe, all classes, at the end of 1930, were as follows:

National.....	\$1,396,110,000
Provincial.....	150,614,000
Municipal.....	387,611,000
Government guaranteed, corporate.....	632,194,000
Private corporate.....	894,000,000
Total.....	3,460,629,000

(Witness excused.)

**TESTIMONY OF RAY MORRIS, REPRESENTING BROWN BROS.,  
HARRIMAN & CO.**

(The witness was duly sworn by the chairman.)

Senator JOHNSON. Would you state your name, please, and your residence?

Mr. MORRIS. Ray Morris.

Senator JOHNSON. Your occupation?

Mr. MORRIS. A partner of Brown Brothers, Harriman & Co., New York.

Senator JOHNSON. How long have you been connected with that organization?

Mr. MORRIS. The present firm is a merger of Brown Bros. & Co., and W. A. Harriman & Co., and Harriman Bros., as of January 1, 1931. I have been a partner of Brown Bros. since January 1, 1921.

Senator JOHNSON. You have handed me here a statement of the participation of your firm in certain foreign bonds and securities. I observe the total is \$1,663,000,000. Have you a copy of it?

Mr. MORRIS. Yes. I have classified it this way: Where we have either originated or where we have joined others as original term partners, that total is \$1,663,000,000, but our share in that, which we took was \$267,000,000. Then there is a second category, where we appeared in the advertising, but were not the original principals. That total is \$2,089,000,000 and we took \$37,000,000 participation in that.

Senator JOHNSON. The totals were \$3,752,000,000?

Mr. MORRIS. Our share in those totals was \$304,000,000.

Senator JOHNSON. Your gross profits were \$5,779,000?

Mr. MORRIS. Yes; or 19 cents for every \$10 invested.

Senator JOHNSON. I observe that you originated about \$73,000,000 in Argentina.

Mr. MORRIS. Yes. Let me turn to my work sheet on that, and I will take our own originations. We had the \$50,000,000 notes which were paid off, and now the \$23,908,000 notes at present outstanding.

Senator JOHNSON. What were the others that you had in Latin America?

Mr. MORRIS. \$15,000,000 Chilean consolidated municipal loan. Then, we were joint with White-Weld, but did not manage, on \$30,000,000 Rio de Janeiro, and another smaller Rio de Janeiro loan of about \$1,700,000. We were with the W. R. Grace people on \$3,000,000 city of Lima, Peru. I think that is the total of our South American business.

Senator JOHNSON. Has the city of Lima defaulted?

Mr. MORRIS. They have been unable to obtain exchange.

Senator JOHNSON. Have you anything to do with Colombia?

Mr. MORRIS. No; we have nothing in Colombia, but the Harriman firm, which merged with us, I think has. They have a participation in the Colombian Mortgage Bank. I will turn to that in a minute here—two issues of \$5,000,000 each, of the Agricultural Mortgage Bank of Colombia, 6 per cent bonds, one issue due in 1947 and the other due in 1948; one issued in 1927 and the other issued in 1928. Their participation was \$2,125,000 in each of those two issues.

Senator JOHNSON. Your Chilean loan is \$15,000,000?

Mr. MORRIS. Chilean Consolidated Municipalities; yes, Senator.

Senator JOHNSON. What is the situation of that now?

Mr. MORRIS. The inability to obtain exchange. The municipalities are collecting adequate tax rates for debt service, but it can not be remitted.

Senator JOHNSON. Have they paid their interest?

Mr. MORRIS. No, sir. All Chilean obligations are under the Government moratorium, due to the rationing of exchange and the inability, practically, to secure exchange. Chile lives on copper and nitrates, and those two industries have had a hard time.

Senator JOHNSON. I notice the Baragua Sugar Co., \$4,500,000. Whose was that?

Mr. MORRIS. We were associated with Hayden-Stone in that. We were not the originators. That is in default.

Senator JOHNSON. The amount of that is \$950,000?

Mr. MORRIS. That, I think, was the amount of our interest in the loan, sir.

Senator JOHNSON. That is in default now, is it?

Mr. MORRIS. That is in default.

Senator JOHNSON. The Punta Alegre Sugar Co.?

Mr. MORRIS. Let me turn to that on my work sheets. That was not an origination. That was a participation on our part with others.

Senator JOHNSON. Where is that situated?

Mr. MORRIS. That is in Cuba.

Senator JOHNSON. That is likewise in default, is it not?

Mr. MORRIS. Yes.

Senator JOHNSON. Take a loan like that. That was 1927?

Mr. MORRIS. Yes.

Senator JOHNSON. What did you buy it at, and for what was it sold to the public?

Mr. MORRIS. We were not the originators of that loan. We joined Hayden-Stone in it, and I have not gotten the data on that point. I will be glad to get it for you. Would you like to have me make a note of that?

Senator JOHNSON. If you would drop us a line concerning that.

Mr. MORRIS. The purchase price as it came to us—of course, I do not know what the purchase price was as it came to Hayden-Stone & Co.

Senator JOHNSON. What was the purchase price as it came to you?

Mr. MORRIS. I will tell you that. I have extended our profit on it here, but not the detail of the purchase price.

Senator JOHNSON. What is the Lautaro Nitrate (Ltd.)?

Mr. MORRIS. Lautaro Nitrate (Ltd.) is a Guggenheim concern, which introduced a modern method of working nitrates in Chile. That financing came through the National City Bank and we had a share in it, but not on original terms.

Senator JOHNSON. You had merely a share of \$1,500,000?

Mr. MORRIS. Yes.

Senator JOHNSON. But for the terms of it we would have to go to the National City Co.?

Mr. MORRIS. The National City Co. would be the firm of record on those terms.

Senator JOHNSON. You were simply one of the ultimate group?

Mr. MORRIS. We were a distributing house there, but we appeared in the advertising, so I included it in the list.

Senator JOHNSON. Did I understand you to say that was a Guggenheim concern?

Mr. MORRIS. Yes.

Senator JOHNSON. Do you know anything about the nitrate situation in Chile?

Mr. MORRIS. I was down there several years ago and went around with the W. R. Grace people. The old-fashioned method of extracting nitrates from the ores was a very inefficient process. The Guggenheims went in and introduced what might be called a flotation process, by analogy to the copper industry, which greatly reduced the cost of making nitrates and made available a very large amount of ore which otherwise would have been too low grade to use. It was a revolutionary process. The first plant they built—the company is known as the Anglo-Chilean—is known as the Maria-Elena plant. Then the Lautaro was the second very large flotation plant which the Guggenheims built in Chile to carry on the process, and this Cosach company you have seen reference to—the idea was, as I understand it—I am not speaking for myself here—that the Chilean Government would be the majority owner of this company, which would take the nitrate from each of the low-grade fields and put it through these very costly American-built plants. Otherwise the nitrate could not compete with the synthetic.

Senator JOHNSON. How about your city of Santiago, \$4,000,000?

Mr. MORRIS. It is in default?

Senator JOHNSON. City of Rio de Janeiro?

Mr. MORRIS. In default. The federal receiver of that city has made us a proposition to deposit milreis, but we have not agreed with him on the amounts. He has not, in our judgment, offered to deposit enough milreis, and that negotiation is still on. Most of our work, Senator, has been in Scandinavia, in Canada, and in France.

Senator JOHNSON. But you have participated pretty generally.

Mr. MORRIS. Oh; yes. We have participated very generally in other people's syndicates.

Senator JOHNSON. What is the Andes Copper Mining Co.?

Mr. MORRIS. That is a National City Co. The Andes is a part of the Anaconda Copper. It is one of their two great producing companies in Chile, the other being the Chile Exploration Co.

Senator JOHNSON. Republic of Chile, \$10,000,000?

Mr. MORRIS. We were associated with the National City Co. in that, but not as an originator.

Senator JOHNSON. How do you happen to go over to Tokyo to invest in electric-light companies, if you do not mind telling me, please?

Mr. MORRIS. Well, it is a fair question. The electric development in Japan has been a very rapid thing and a very interesting thing in recent years. We were with either the Morgans or the Guaranty Trust, I forget which, in that issue.

Senator JOHNSON. I think it was a Morgan issue. That is my recollection.

Mr. MORRIS. The statement is a first-rate statement. Those people have a tremendous will to pay. They are very proud of their contractual obligations. The record of Japanese bonds has been very good, both the price record and the performance record.

The CHAIRMAN. They have not defaulted in any payment?

Mr. MORRIS. No default from Japan at all, Senator.

Senator JOHNSON. Have there been any defaults in any of these Canadian hydroelectric developments?

Mr. MORRIS. No defaults in the ones I have listed.

Senator JOHNSON. I notice you were the leader or the sponsor in certain private developments in Germany, like the Mansfeld Mining & Smelting Co.

Mr. MORRIS. Yes. I think that is the only one. Our associates, Harrimans, were also quite interested in the Good Hope Steel Co. The Mansfeld Co., I think, is one of the two oldest industrial companies in the world. They had Martin Luther as arbitrator in a case once. We have done commercial credit business with them, and they wanted to get some of their current borrowing in long-time form. We put out a bond issue which has always been paid punctually.

Senator JOHNSON. You have a couple of bond issues of the Hamburg Elevated & Underground Railways.

Mr. MORRIS. Yes. I would say that is a quasimunicipal enterprise. It is a municipal enterprise, but it is not an issue by the city of Hamburg. It is an issue of an owned utility of the city of Hamburg.

Senator JOHNSON. Have you any short-term German credits?

Mr. MORRIS. We have approximately \$5,000,000 of short commercial credits, and perhaps \$1,000,000 of other bank credits, and one thing and another, that are not reimbursement credits.

Senator JOHNSON. That is all I care to ask, Mr. Chairman.

The CHAIRMAN. Have you put these statements into the record?

Senator JOHNSON. I would like to have included in the record the statements furnished by the witness.

The CHAIRMAN. Yes. We would like to have them all in.

You may be excused. The committee will stand adjourned until 10 o'clock Monday morning.

(Whereupon, at 4 o'clock p. m., the committee adjourned until Monday, January 11, 1932, at 10 o'clock a. m.)

## BROWN BROTHERS, HARRIMAN &amp; CO.

The two firms have originated, or joined others as original terms partners, in foreign bond issues totaling (99 issues) \$1,663,000,000; taking participations aggregating \$267,469,000.

They appeared in the advertising, in addition to this of issues totaling (32 issues) \$2,089,000,000; taking participations of \$37,045,000.

The totals were, \$3,752,000,000, and \$304,514,000.

Gross profits, \$5,779,830, or 1.90 per cent=19 cents per \$10.

*Summary—Originated and/or managed (1919-1931), Brown Bros. & Co.*

	Total issues	Participations	Gross profits	Retired
Scandinavia.....	\$96,200,000	\$25,415,334	\$392,008.66	\$22,000,000
Germany.....	33,500,000	9,889,000	191,775.00	4,000,000
England.....	10,000,000	3,333,333	37,643.75	10,000,000
France.....	20,750,000	6,617,500	181,807.99	10,000,000
Argentina.....	73,008,000	14,390,000	45,000.00	50,000,000
Latin America (others).....	15,000,000	3,750,000	83,437.50	-----
	249,358,000	63,395,167	1,931,672.90	96,000,000

<sup>1</sup> 1.46 per cent.

*Summary—Origination participations with others, Brown Bros. & Co.*

	Total	Participation	Profit	Retired
Scandinavia.....	\$126,150,000.00	\$13,454,856.00	\$291,851.06	\$28,900,000.00
Canada.....	363,275,000.00	40,120,754.00	543,235.27	107,915,000.00
Germany.....	135,500,000.00	17,915,423.00	414,583.57	17,000,000.00
England.....	95,000,000.00	4,000,000.00	38,308.00	95,000,000.00
France.....	386,000,000.00	63,500,000.00	787,293.45	175,000,000.00
Argentina.....	90,000,000.00	4,200,000.00	49,115.00	-----
Latin America (others).....	106,270,000.00	16,047,500.00	387,750.00	7,000,000.00
Other European.....	20,000,000.00	3,336,000.00	67,550.00	-----
	1,322,195,000.00	162,574,638.00	1,255,961.35	430,815,000.00

<sup>1</sup> 1.57 per cent.

*Summary—Participations with others, not original terms but appearing in the advertisement, Brown Bros. & Co.*

	Total issues	Participations	Gross profits	Retired
Scandinavia.....	\$211,810,000.00	\$7,603,240.00	\$299,823.97	\$15,000,000.00
Canada.....	100,000,000.00	2,042,000.00	49,782.50	-----
Germany.....	208,250,000.00	2,000,000.00	73,887.50	-----
England.....	250,000,000.00	5,000,000.00	62,350.00	250,000,000.00
France.....	25,000,000.00	400,000.00	5,500.00	25,000,000.00
Latin America.....	50,000,000.00	1,800,000.00	38,250.00	50,000,000.00
Other European.....	699,000,000.00	13,000,000.00	329,737.50	10,000,000.00
	1,544,060,000.00	31,845,240.00	1,856,311.47	350,000,000.00

<sup>1</sup> 2.68 per cent.

Originated and/or managed (1919-1931), Brown Bros. & Co.

	Year	Participation	Gross profits	Retired
<b>SCANDINAVIA</b>				
\$15,000,000, city of Copenhagen, Denmark, external sinking fund 5½'s, 1944.....	1919	\$4,333,333.00	\$46,490.00	\$15,000,000.00
\$5,000,000, United Steamship Co. of Copenhagen, 6's, 1937.....	1922	2,000,000.00	62,825.00	-----
\$5,000,000, mortgage, Bank of the Kingdom of Denmark, sinking fund, 6 per cent, 1970.....	1925	1,000,000.00	27,125.00	5,000,000.00
\$2,000,000, Burmeister & Wain, Copenhagen, 6 per cent, 1940.....	1925	400,000.00	28,550.59	-----
\$7,000,000, Danish consolidated municipal loan, 5½'s, 1955.....	1925	2,333,333.00	18,013.22	-----
\$5,300,000, mortgage, Bank of the Kingdom of Denmark, 5's, 1972.....	1927	833,335.00	10,661.00	-----
\$2,000,000 Danish consolidated municipal loan, 5's, 1953.....	1928	666,667.00	11,541.35	-----
\$8,000,000, Department of Akershus, Norway, 5's, 1973.....	1928	2,666,000.00	41,660.00	-----
\$3,000,000, city of Helsingfors (Finland), 6½'s, Apr., 1960.....	1930	2,666,000.00	54,010.00	-----
\$2,000,000, city of Bergen, Norway, 6's, Oct. 15, 1949.....	1924	450,000.00	12,712.50	2,000,000.00
\$1,900,000, city of Bergen, Norway, 5's, Oct. 15, 1949.....	1930	950,000.00	17,125.00	-----
\$30,000,000, Kingdom of Norway, 30-year, 5½'s, June 1, 1965.....	1925	5,400,000.00	61,295.00	-----
\$5,000,000, city of Helsingfors, Finland, 8 per cent six months notes, June 16, 1930.....	1930	1,666,666.00	(1)	5,000,000.00
<b>FRANCE</b>				
\$10,000,000, Paris-Orleans R. R. Co., 7 per cent sinking fund gold bond, 1954.....	1924	3,500,000.00	75,870.49	10,000,000.00
\$10,750,000, Paris-Orleans R. R. Co., 5½'s sinking fund gold bond, 1965.....	1928	3,117,500.00	105,937.50	-----
<b>ENGLAND</b>				
\$7,500,000, Cunard Steamship Co. (Ltd.), 2-year 5's, 1927.....	1925	2,500,000.00	28,295.00	7,500,000.00
\$2,500,000, Cunard Steamship Co. (Ltd.), 2-year, 4½'s, 1929.....	1927	833,333.00	9,348.75	2,500,000.00
<b>GERMANY</b>				
\$3,000,000, Mansfeld Mining & Smelting Co., sinking fund, mortgage gold bond, 7's, 1941.....	1926	1,500,000.00	79,000.00	-----
\$4,000,000, Hamburg Elevated Underground and Street Rys., 1 year 5½ per cent note, due 1928.....	1927	889,000.00	-----	4,000,000.00
\$3,000,000, Hamburg Elevated Underground and Street Rys., 5½'s, 1939.....	1928	2,000,000.00	33,150.00	-----
\$15,000,000, City of Berlin, Germany, sinking fund 6 per cent gold bond, 1955.....	1928	3,750,000.00	40,875.00	-----
\$3,500,000, City of Hanover, Germany, 7 per cent convertible gold bond, 1939.....	1929	1,750,000.00	38,750.00	-----
<b>ARGENTINA</b>				
\$50,000,000, Government of the Argentine Nation, 1-year 5 per cent notes, due 1931.....	1930	12,500,000.00	45,000.00	50,000,000.00
\$23,908,000, Government of the Argentine Nation, 6 and 9 months' notes, \$13,908,000 due Apr. 1, 1932; \$10,000,000 due July 1, 1932.....	1931	(1,070,000.00 820,000.00)	-----	-----
<b>CHILE</b>				
\$15,000,000, Chilean consolidated municipal loan sinking fund 7 per cent gold bond, 1960.....	1929	3,750,000.00	83,437.50	-----
		56,328,501.00	870,377.90	96,000,000.00
		5,400,000.00	-----	-----
		61,728,501.00	931,673.00	-----
		1,666,666.00	-----	-----
		63,395,167.00	1.51	-----

1 No profit.

2 Per cent.

Total sum of issues originated.....	\$214,358,000
Plus Norway.....	30,000,000
	244,358,000
Helsingfor.....	5,000,000
	249,358,000

*Brown Bros. & Co. origination participations with others*

	Date	Participation	Profit	Retired
SCANDINAVIA				
\$25,000,000 Swedish Government 20-year 6's gold bonds, due June 15, 1939.....	1919	\$2,000,000.00	\$40,000.00	\$25,000,000.00
\$2,500,000 city of Trondhjem, Norway, 20-year 6½'s due July 1, 1944.....	1924	500,000.00	22,510.00	2,500,000.00
\$12,000,000 Industrial Mortgage Bank of Finland, 7 per cent gold bonds, due July 1, 1944.....	1924	2,300,000.00	71,525.00	-----
\$30,000,000 Swedish Government 30-year 5½'s, due 1954.....	1924	2,400,000.00	40,370.00	-----
\$1,400,000 Christiania Tramways 2-year 5's, due Oct. 1, 1926.....	1924	315,000.00	4,697.50	1,400,000.00
\$10,000,000 Republic of Finland 7 per cent external loan, due 1950.....	1925	958,300.00	25,749.25	-----
\$15,000,000 Republic of Finland 6½'s, due 1956.....	1926	1,149,960.00	22,074.80	-----
\$2,750,000 city of Trondhjem 5½'s, due 1957.....	1927	550,000.00	29,250.00	-----
\$2,500,000 Danish producers loan fund committee 8's, due July 1, 1940.....	1928	1,250,000.00	(1)	-----
\$10,000,000 Finland Residential Mortgage Bank 6's, 1961.....	1928	833,721.00	11,557.51	-----
FRANCE				
\$75,000,000 Government of French Republic 60-90 day treasury bills.....	1920	750,000.00	5,288.51	75,000,000.00
\$100,000,000 Government of the French Republic 25 external gold loan, 8 per cent, 1945.....	1920	20,000,000.00	293,364.72	100,000,000.00
\$100,000,000 Government of the French Republic 20-year 7½'s, 1941.....	1921	20,000,000.00	154,990.00	-----
\$100,000,000 Government of the French Republic 25-year 7's, 1949.....	1924	20,000,000.00	274,687.50	-----
\$11,000,000 French National Mail Steamship Line 6's, 1952.....	1927	2,750,000.00	39,062.72	-----
\$15,000,000 Republic of Finland 5½'s external loan, due Feb. 1, 1958.....	1928	1,197,875.00	23,217.00	-----
ENGLAND				
\$95,000,000 United Kingdom of Great Britain and Ireland, 5½ per cent notes.....	1919	4,000,000.00	38,308.00	95,000,000.00
GERMANY				
\$5,000,000 Electric Power Corporation of Germany 6½'s, due 1950.....	1925	1,000,000.00	39,548.57	-----
\$10,000,000 State of Hamburg 6's, due Oct. 1, 1946.....	1926	750,000.00	18,750.00	-----
\$2,000,000 Free State of Saxony 6 months' notes.....	1927	1,000,000.00	1,500.00	2,000,000.00
\$5,000,000 Free State of Hamburg 1-year 5 per cent notes.....	1927	505,000.00	300.00	5,000,000.00
\$20,000,000 Free State of Prussia 6½'s, 1951.....	1927	4,000,000.00	123,000.00	-----
\$30,000,000 Deutsche Rentenbank Kreditanstalt Landwirtschaftliche Zentralbank 6's, Apr. 15, 1938.....	1928	1,250,000.00	31,500.00	-----
\$5,000,000 Electric Power Corporation of Germany 6½'s, due 1953.....	1928	1,000,000.00	34,000.00	-----
\$4,000,000 Prussian Electric Co. 6's, 1954.....	1929	571,428.00	5,500.00	-----
\$6,000,000 United Industrial Corporation Hydro Electric first 6's, Dec. 1, 1945.....	1925	750,000.00	25,125.00	-----
\$2,500,000 Electric Power Corporation (Germany) first 6½'s, Mar. 1, 1950.....	1925	500,000.00	20,000.00	-----
\$5,000,000 United Industrial Corporation 7 per cent gold notes, due July 15, 1930.....	1930	625,000.00	4,687.50	5,000,000.00
\$5,000,000 Free State of Prussia treasury certificates, due Aug. 24, 1927; renewed to mature Nov. 23, 1927.....	1927	1,000,000.00	3,000.00	5,000,000.00
\$30,000,000 Free State of Prussia 6's, due Oct. 15, 1952.....	1927	4,214,000.00	82,140.00	-----
\$6,000,000 United Industrial Corporation 6½'s, due 1941.....	1927	750,000.00	25,807.50	-----
OTHER EUROPEAN COUNTRIES				
\$20,000,000 city of Budapest 6's, 1962.....	1927	3,336,000.00	67,550.00	-----

Brown Bros. & Co. origination participations with others—Continued

	Date	Participation	Profit	Retired
CANADA				
\$75,000,000 Dominion of Canada 2 and 10 years 5½'s, due in 1921 and 1929.....	1919	\$14,687,500.00	\$99,503.13	\$75,000,000.00
\$2,850,000 Province of Manitoba 5-year 6's, 1925.....	1920	427,500.00	7,150.00	2,850,000.00
\$4,000,000 Shawinigan Water & Power Co. 6-year 7½'s, 1926.....	1920	770,000.00	28,000.00	4,000,000.00
\$1,875,000 Shawinigan Water & Power Co. first 6's, 1950.....	1921	360,937.00	12,329.00	1,875,000.00
\$1,000,000 Shawinigan Water & Power Co. 5½'s, 1954.....	1924	110,000.00	2,500.00	1,000,000.00
\$1,300,000 Shawinigan Water & Power Co. 6's, 1950.....	1924	143,000.00	3,000.00	1,300,000.00
\$10,000,000 Canadian Pacific Ry. Co. 4 per cent consolidated debenture stock.....	1924	400,000.00	9,500.00	-----
\$20,000,000 Province of Ontario 4½ per cent 20-year, 1944.....	1924	1,450,000.00	17,760.00	-----
\$2,000,000 Province of Nova Scotia 2-year 4½'s, 1926.....	1924	666,667.00	( <sup>1</sup> )	2,000,000.00
\$2,000,000 city of Winnipeg, Canada, 20-year 4½'s, 1944.....	1924	583,000.00	3,836.14	-----
\$500,000 Shawinigan Water & Power Co. first refunding 5½'s series "D".....	1924	55,000.00	1,375.00	500,000.00
\$3,500,000 Province of Nova Scotia 2-year 4½'s May 15, 1927.....	1925	580,000.00	1,740.00	3,500,000.00
\$3,000,000 Shawinigan Water & Power Co. 5's, Oct. 1, 1955.....	1926	275,000.00	4,125.00	3,000,000.00
\$2,000,000 City of Toronto 4½ per cent gold bonds, due Sept. 1, 1953.....	1926	340,000.00	4,700.00	-----
\$35,000,000 Shawinigan Water & Power Co. first and collateral trust 4½'s, 1967.....	1927	2,630,000.00	88,467.00	-----
\$10,000,000 Shawinigan Water & Power Co. first mortgage and collateral trust 4½'s, 1968.....	1928	768,000.00	25,000.00	-----
\$8,000,000 Shawinigan Water & Power Co. first mortgage and collateral trust 4½'s, 1968.....	1929	438,000.00	15,000.00	-----
\$14,250,000 Canadian Pacific Ry. 4½ per cent eq. trust, 1931-1945.....	1930	900,000.00	12,000.00	890,000.00
\$20,000,000 Shawinigan Water & Power Co. first mortgage and collateral trust 4½'s, 1970.....	1930	1,480,000.00	50,000.00	-----
\$15,000,000 Shawinigan Water & Power Co. first mortgage collateral trust 5's, 1970.....	1930	1,006,500.00	37,500.00	-----
LATIN-AMERICA				
\$6,700,000 Dominican Republic 20-year 5¼'s, 1942.....	1922	750,000.00	25,000.00	-----
\$4,500,000 Baragua Sugar Co. 15-year first 7¼'s, 1937.....	1922	950,000.00	45,750.00	( <sup>2</sup> )
\$21,000,000 Province of Ontario, Canada, 4½'s, due Dec. 1, 1926-1955.....	1925	1,100,000.00	4,500.00	-----
\$100,000,000 Dominion of Canada 30-year gold bond 5's, due May, 1952.....	1922	10,000,000.00	105,000.00	-----
\$1,000,000 Shawinigan Water & Power Co. first and refunding 5's, Oct. 1, 1955.....	1925	109,650.00	2,750.00	1,000,000.00
\$12,000,000 Canadian Pacific Ry. Eq. trust 4½'s, 1926-1938.....	1926	750,000.00	7,500.00	5,500,000.00
\$30,000,000 Government of Argentine Nation, 6's, 1958.....	1922	1,500,000.00	14,615.00	-----
\$2,000,000 Punta Alegre Sugar Co., 2-year 6's, 1927.....	1925	475,000.00	10,000.00	2,000,000.00
\$5,000,000 Compania Cubana, 3-year, 6's, 1929.....	1926	370,000.00	25,000.00	5,000,000.00
\$3,300,000 Dominican Republic, 20-year, 5¼'s, 1942.....	1926	370,000.00	3,500.00	-----
\$40,000,000 Government of the Argentine Nation, 6's, Sept. 1, 1960.....	1927	1,500,000.00	22,500.00	-----
\$5,000,000 Dominican Republic customs administration 5½'s, 1940.....	1927	420,000.00	6,500.00	-----
\$4,000,000 Punta Alegre Sugar Co., 6's, Oct. 1, 1930.....	1927	950,000.00	20,000.00	( <sup>1</sup> )
\$20,000,000 Government of the Argentine Nation, 5½'s, Aug. 1, 1922.....	1928	900,000.00	12,000.00	-----
\$5,000,000 Dominican Republic customs administration, 5½'s, 1940.....	1928	420,000.00	6,000.00	-----
\$30,000,000 city of Rio de Janeiro, 6½'s, 1953.....	1928	7,250,000.00	95,000.00	-----
\$1,770,000 city of Rio de Janeiro, 6's, 1933.....	1928	442,500.00	12,000.00	-----
\$4,000,000 city of Santiago (Chile), 7's, 1949.....	1928	800,000.00	22,500.00	-----
\$32,000,000 Lautaro Nitrate (Ltd.), 6's, 1954 (with warrants).....	1929	1,500,000.00	43,000.00	-----
\$3,000,000 city of Lima, Peru, 6½'s, 1958.....	1928	1,350,000.00	73,500.00	-----

<sup>1</sup> No profit.

<sup>2</sup> In default.

## SUMMARY

*Originated and/or managed (1919-1931), W. A. Harriman & Co. (Inc.)*

	Total issues	Participations	Gross profits	Retired
Germany.....	\$21,000,000.00	\$14,000,000.00	\$581,860.00	-----
Latin America.....	24,500,000.00	11,500,000.00	221,237.50	\$10,000,000.00
Other European.....	27,000,000.00	11,400,000.00	341,812.50	-----
	72,500,000.00	36,900,000.00	1,144,910.00	10,000,000.00

1 3.1 per cent.

*Originated and/or managed (1923-1928), W. A. Harriman & Co. (Inc.)*

	Year	Participation	Gross profit	Retired
GERMANY				
\$4,000,000 Consolidated Hydro Electric Works of Upper Wuerthenberg sinking-fund 7's, due 9145.....	1926	\$4,000,000.00	\$71,900.00	-----
\$4,000,000 German Atlantic Cable Co., first 7's, 1945.....	1925	2,000,000.00	79,290.00	-----
\$7,500,000 Good Hope Steel & Iron Works, 20-year 7 per cent sinking-fund mortgage gold bonds, 1945.....	1925	3,750,000.00	167,750.00	-----
\$2,500,000 Good Hope Steel & Iron Works, 20-year 7 per cent sinking-fund mortgage gold bonds, 1945.....	1926	1,250,000.00	52,920.00	-----
\$3,000,000 Leipzig Overland Power Co., sinking fund 6½'s, due 1946.....	1926	3,000,000.00	210,000.00	-----
OTHER EUROPEAN COUNTRIES				
\$15,000,000 Silesian American Co. (Delaware corporation), collateral-trust sinking-fund 7's, 1941.....	1926	6,000,000.00	168,250.00	-----
\$12,000,000 Terni-Societe per l'Industria e l'Elettricitá Italy first mortgage H. E. 6½'s sinking-fund gold bonds, due 1953.....	1928	5,400,000.00	173,562.50	-----
LATIN AMERICAN COUNTRIES				
\$10,000,000 Cuba Co., 6 per cent 1935 (New Jersey corporation).....	1925	5,000,000.00	73,637.50	\$10,000,000.00
\$5,000,000 Agricultural Mortgage Bank of Colombia, 6's 1947.....	1927	2,125,000.00	58,475.00	-----
\$5,000,000 Agricultural Mortgage Bank of Colombia, 6's 1948.....	1928	2,125,000.00	38,500.00	-----
\$4,500,000 Republic of Panama 6½ bonds, 1953.....	1923	2,250,000.00	50,325.00	-----
		36,900,000.00	1,144,910.00	10,000,000.00

1 3¼ per cent.

*W. A. Harriman & Co. (Inc.) origination participations with others*

	Date	Participation	Profit
SCANDINAVIA			
\$5,360,000. Kingdom of Norway, Municipalities Bank, 5 per cent sinking fund gold bonds, due 1970.....	1930	\$1,000,000	\$20,000
GERMANY			
\$3,000,000. Mannheim & Palatinate Electric Co., 15-year 7 per cent, 1941.....	1926	1,000,000	17,500
OTHER EUROPEAN COUNTRIES			
\$3,000,000. Hungarian Land Mortgage Institute, 7½ per cent land mortgage, due 1961.....	1926	800,000	25,250
Do.....	1928	800,000	20,575
\$5,000,000. Mortgage Bank of Venetian Provinces, Italy, 7 per cent gold bonds, 1952.....	1927	1,000,000	47,100
		4,600,000	130,725

*W. A. Harriman & Co. (Inc.) participations with others—not original terms but appearing in advertisement*

	Year	Participation	Profit
<b>GERMANY</b>			
\$110,000,000 German Government 7's, 1949.....	1924	\$300,000	\$12,750
\$98,250,000 German Government international loan 5½'s, 1965.....	1930	250,000	6,250
\$10,000,000 Central Bank of German State & Provincial Banks (Inc.), purchase first mortgage second 6's, 1951.....	1927	1,000,000	15,000
\$5,000,000 Central Bank of German State & Provincial Banks (Inc.), purchase first mortgage second 6's, 1952.....	1927	500,000	9,000
<b>OTHER EUROPEAN COUNTRIES</b>			
\$150,000,000 Japanese Government sinking fund 6½ per cent, 1954.....	1924	300,000	10,500
\$47,000,000 Polish Government stabilization loan 7 per cent, 1947.....	1927	1,750,000	62,500
\$70,000,000 Tokyo Electric Light Co. (Ltd.), first mortgage 6's, 1953.....	1928	500,000	16,250
\$25,000,000 Austrian Government first loan 7 per cent, 1943.....	1923	100,000	4,000
<b>LATIN AMERICA</b>			
Republic of Uruguay, 6 per cent gold bonds, 1960.....	1926	500,000	20,000
		5,200,000	156,250

*Brown Bros. & Co.—Participations with others—Not original terms but appearing in advertisement*

	Year	Participation	Profits	Retired
<b>GERMANY</b>				
\$110,000,000 German Government external 7's, 1949.....	1924	\$1,000,000.00	\$42,500.00	-----
\$98,250,000 German Government international loan 5½'s, June 1, 1965.....	1930	1,000,000.00	31,387.50	-----
		2,000,000.00	73,887.50	-----
<b>FRANCE</b>				
\$25,000,000 Department of the Seine, France, 20-year 7's, 1942.....	1922	400,000.00	5,500.00	\$25,000,000.00
<b>ENGLAND</b>				
\$250,000,000 United Kingdom of Great Britain and Ireland 10 and 3 year convertible 5½ bonds and notes.....	1919	5,000,000.00	62,350.00	-----
<b>SCANDINAVIA</b>				
\$15,000,000 International Match Corporation 6½'s, 1943.....	1923	1,000,000.00	30,000.00	15,000,000.00
75,000,000 guilders Kingdom of the Netherlands 50-year 6's due Mar. 1, 1972.....	1922	937,500.00	13,200.00	-----
50,000,000 guilders Kingdom of the Netherlands 50-year 6's, series B, 1972.....	1922	615,000.00	16,395.00	-----
\$50,000,000 International Match Corporation 8's, Nov. 1, 1947.....	1927	1,500,000.00	18,750.00	-----
45,000,000 Kr. (\$12,000,000) American certificates representing Kreuger & Toll Co. participating debentures.....	1928	485,940.00	25,684.60	-----
\$26,500,000 Kreuger & Toll 5's, 1959.....	1929	1,000,000.00	20,000.00	-----
\$30,000,000 Kreuger & Toll Co. participating debentures American certificates.....	1929	1,068,000.00	21,617.11	-----
\$28,000,000 Kreuger & Toll Co. participating debentures American certificates.....	1929	996,800.00	153,977.26	-----
		7,603,240.00	299,823.97	15,000,000.00
<b>CANADA</b>				
Canadian Pacific 4 per cent debt. stock.....	1921	1,000,000.00	13,000.00	-----
\$5,000,000 Canadian Pacific Railway 4 per cent debt. stock.....	1923	200,000.00	5,000.00	-----
\$20,000,000 Aluminum (Ltd.) 8's, 1948.....	1928	267,000.00	7,420.00	-----
\$13,000,000 Aluminum Co. (Ltd.) 6 per cent preferred.....	1930	175,000.00	5,142.50	-----
\$37,000,000 Duke Price Power Co. (Ltd.) first 6's, May 1, 1956.....	1926	400,000.00	19,200.00	-----
		2,042,000.00	49,752.50	-----

*Brown Bros. & Co.—Participations with others—Not original terms but appearing in advertisement—Continued*

	Year	Participation	Profits	Retired
LATIN AMERICA				
\$40,000,000 Andes Copper Mining Co. Convertible 7's due Jan. 1, 1943 (25 per cent paid).....	1925	\$800,000.00	\$35,000.00	\$40,000,000.00
\$10,000,000 Republic of Chile, 6 months treasury notes due Feb. 25, 1927.....	1926	1,000,000.00	3,350.00	10,000,000.00
		1,800,000.00	38,280.00	50,000,000.00
OTHER EUROPEAN COUNTRIES				
\$40,000,000 Commonwealth of Australia 5's, 1957.....	1927	750,000.00	11,250.00	-----
\$50,000,000 Commonwealth of Australia 4N's, May 1, 1956.....	1928	1,000,000.00	16,250.00	-----
\$70,000,000 Tokyo Electric Light Co. (Ltd.) 6's, June 15, 1955.....	1928	1,500,000.00	45,625.00	-----
\$10,000,000 Solvay & Co. 10-year 6 per cent, Apr. 1, 1934.....	1924	1,000,000.00	17,750.00	10,000,000.00
		13,000,000.00	326,737.50	10,000,000.00

BROWN BROS. HARRIMAN & Co.,  
New York, January 9, 1932.

HON. REED SMOOT,  
Senate Office Building, Washington, D. C.

DEAR SENATOR: I want to express to you my appreciation of the courtesy extended to me as a witness at the hearing yesterday.

The lateness of the hour prevented me from making any extended comments except in answer to inquiries, but, in view of your request during the morning that duplicate papers be sent to you, I am taking the liberty of inclosing a copy of the comments which I handed in to Senator Johnson as accompanying my testimony.

I have read all the testimony, coming out of this most interesting hearing, which has been published in the newspapers, and I have given the matter deep thought in connection with the preparation of our own data.

Looking back over the last 10 years in retrospect, it seems to me that something like this has happened: America has suddenly changed its status from that of a debtor Nation to that of the greatest creditor Nation the world has ever seen. In the process, with vastly too much credit available in this country, foreign loans have been made, usually good as to their individual detail but excessive in their aggregate amount. This, I think, is a reflection of the enthusiasm with which the United States always goes into a venture. At that, I think it was far better that the excessive credit thus represented should not have been spent at home in further facilities for overproduction of goods and commodities, because I take it that this overproduction is at the heart of our troubles to-day.

The other point, which has come forcibly to the attention of all who read the testimony, is the fact that the gross profits, as related by the bankers, seem to be quite misleading unless they are related on the one hand to the huge volume of transactions involved, and unless it is also appreciated what a large and diversified number of expenses have to be taken off these profits before they become net. In the case of our own firm, I testified that our gross profit on all our participations in foreign issues was 19 cents per \$10 of risk, but against this sum must come the expense of the selling organization, the heavy legal expenses, cables, traveling expenses, and general overhead expenses. I wonder if there is any other kind of merchandising with so low a margin of profit.

Yours very truly,

RAY W. MORRIS.

The firm of Brown Bros. Harriman & Co. was formed by the merger of Brown Bros. & Co., W. A. Harriman & Co., and Harriman Bros. & Co., on January 1, 1931. I have, therefore, made separate tables to show the Brown Bros. issues and the Harriman issues. I have further separated issues which we or they originated or managed from issues which were originated or managed by other people and in which we appeared in the advertising. Issues managed by other

people, where we did not appear in the advertising, but had some retail distribution interest to a greater or lesser extent, are not included, as this would create a duplication of your records. I have no record that either firm made any foreign issues before the war.

The totals indicate that Brown Bros. & Co. originated or managed issues originating from the Scandinavian countries with a total par value of \$96,200,000, but that our participations in these syndicates totaled \$25,415,334.

Our originations in France totaled \$20,750,000 and our participations in these syndicates totaled \$6,617,500.

Our originations in England totaled \$10,000,000 and our participations in these syndicates totaled \$3,333,333.

Our originations in Germany totaled \$33,500,000 and our participations in these syndicates totaled \$9,880,000.

Our originations in Argentina totaled \$73,908,000 and our participations in these syndicates totaled \$14,390,000.

Our originations in the balance of South America totaled \$15,000,000 and our participation in these syndicates totaled \$3,750,000.

Grand total of all Brown Bros. & Co. originations, \$249,358,000. Grand total of our participation in these syndicates, \$63,395,167. Gross profit spread on the business, \$931,673, equivalent to 1.46 per cent gross profit on participations.

Of the total issues thus listed as Brown Bros. & Co. originations, \$96,000,000 have since retired.

W. A. Harriman & Co. originated or managed syndicates totaling \$72,500,000, of which total \$21,000,000 was German business, \$12,000,000 Italian business, and \$14,500,000 Cuba and Panama business. Their participations in these syndicates aggregated \$36,900,000, and the gross profit on these participations amounted to \$1,144,910 or 3.10 per cent.

Of the total issues thus listed \$10,000,000 have been retired as a whole, in addition to partial sinking-fund retirements.

The next category is Brown Bros. & Co.'s origination participations with others. These total in the Scandinavian countries syndicates aggregating \$126,150,000 in which our own participation amounted to \$13,454,856.

In France these syndicates totaled \$336,000,000 in which our own participations totaled \$63,500,000.

In Germany these syndicates totaled \$135,500,000 in which our own participations totaled \$17,915,428.

In Canada these syndicates totaled \$363,275,000 in which our own participations totaled \$40,120,754.

In Argentina these syndicates totaled \$90,000,000 in which our own participations aggregated \$19,383,500.

The total of our participations in all these syndicates amounted to \$162,574,538, and our gross profit on them amounted to \$2,559,961, or 1.57 per cent.

W. A. Harriman & Co. also participated with others on original terms in issues where their share of the syndicates aggregated \$4,600,000 and their gross profit spread was \$130,725, or 2.82 per cent. In addition to that, W. A. Harriman & Co. appeared in the advertisement but were not on original terms in syndicates aggregating \$5,200,000 with a gross profit of \$156,250, or 3 per cent.

The third category listed is that where we have had positions in a syndicate sufficient to justify our appearing in the advertisement, but where our position has not been on original terms. Our participations in syndicates headed and managed by other people aggregated \$31,845,240 and the gross profit accruing to us amounted to \$856,311, or 2.69 per cent.

In commenting on the foregoing, I might point out that the issues which are in default comprise but 2½ per cent of the total. No European issue is in default, although the Hungarian Government has indicated that the next interest payment on the city of Budapest bonds may have to be provided in local currency because of the shortage of foreign exchange.

The so-called "profit" is a gross sum, the larger part of which is absorbed in expense and overhead incident to the handling of the business. There are large cash outlays against this gross profit for such items as advertising, legal and accounting services, cable charges, traveling expenses, etc., not to speak of the overhead attributable to the business. As those who have appeared before me have testified, it is impracticable to calculate the precise "net profit," but it is, I think, clear that the net profit bears a very modest relationship to the responsibility assumed and risk incurred in handling such large sums.

Since your committee is considering the national aspects of loan transactions of the character above referred to, I desire to emphasize that, except in the

rare case where gold is shipped, foreign-loan operations do not take anything out of this country except American goods or American services which are paid for by the proceeds of the loan. When foreigners borrow dollars, these dollars are inevitably spent in the United States, as the United States is the only place where dollars have a legal purchasing power. I do not mean that it is necessarily the particular borrower which itself spends the dollars in this country. This may or may not be so. Often the borrower really wants his own currency to spend. In that event, it will turn over the dollar exchange to the central bank of issue of its own country, which places the counterpart in its own currency at the borrowers disposal. The central bank then holds the foreign exchange for the use of others of its citizens who require dollars to pay their bills in the United States.

It is in this way that our foreign commerce is largely financed. It would, for instance, be impracticable to stipulate that every foreigner who wants to buy cotton, wheat, or copper in this country must arrange his own financing in this country. This would be impracticable. The easier way, and the way which is in fact adopted, is that the foreign concerns of importance, having good credit standing borrow the dollars when in fact they may wish to spend marks, to use Germany as an illustration. The borrowed dollars are then traded for marks at the Reichsbank and the Reichsbank makes the dollar available to the many German importers of our products. Thus the proceeds of all these foreign loans are spent within the United States and largely promote our own domestic welfare and particularly stimulate our exports. It is no coincidence that our exports attained their peak on a wave of foreign borrowing and that since foreigners have been unable to borrow here our exports have rapidly declined.

Since a foreign loan means in substance that the idle dollars of American investors are mobilized for the purpose of paying American producers for goods which are shipped abroad, the soundness of the transaction depends upon whether American investors are justified in allowing their funds to be so used in reliance of foreign promises to repay them. The answer to that, I think, lies in the fact that although foreign lending may have been somewhat overdone—as almost everything was overdone during the boom years—the actual amounts in default represent only a very small percentage of the total, say (this refers only to our interest)  $2\frac{1}{2}$  per cent. I consider this a very good record considering the extraordinary depression through which the whole world is passing. Even in the case of those issues which are or may be in default, there is no reason to doubt that in the main these defaults will be made good as soon as economic conditions permit. Nowhere are there defaults which are willful or due to other than overpowering economic necessity. In the case of Chile, for example, her revenues and foreign exchange were largely dependent upon exports of copper and nitrates. With these now at a standstill, some interruption of service on her foreign debt became practically inevitable. Extraordinary efforts are being made by most foreign nations to maintain their credit. Argentina is a good example of this.

The question has been raised by your committee in these hearings whether the granting of all these credits to Europe has not reduced the credits available for use here at home, when such credit was necessary. I should think the reverse was true. I should think that during the period of credit inflation which existed for some years prior to the panic in the Autumn of 1929 there was more credit available in America than could be prudently used by industry, and that this is borne out by the general condition of excess production of nearly all commodities which prevailed at that time.

I should think that the granting of foreign credits had the effect quite definitely of making it possible for Europe to absorb some of this excess production of American commodities to the definite benefit of America. The credit inflation here in 1929, which occasioned fantastic prices for stocks and a huge diversion of capital funds into the call-money market at the high rates then prevailing, suddenly terminated the loaning of capital funds to Europe and South America, with the result that the ability of these countries to buy our export surplus was suddenly greatly curtailed.

It seems to me that the loans, with which we helped Europe rebuild her commercial development and her purchasing power after the war, had a certain parallel in the long-continued investment of funds in the United States by Europe in the early stages of our commercial development, but with the difference that the investment of American funds in Europe after the war was too rapid, and was terminated so precipitately by the inflation and panic of 1929, that Europe was given no time for normal readjustment to the new conditions.

From about the time of the Civil War right up to 1914, Europe was our creditor on a very important scale, and the relationship was undoubtedly of mutual advantage in the development of commercial profit to all the nations concerned. After the war, our position switched from that of a debtor nation to that of a creditor nation so suddenly and on so huge a scale that it was peculiarly subject to the shock occasioned by our inflation, and the consequent immediate cessation of foreign loans. Worked out in an orderly manner, I have no doubt that the net effect of these loans would be one of definite advantage to the American merchant and manufacturer.

Even though municipal loans were raised by Germany in this market in excess of prudent requirements—and I think, in the light of recent experience, we must admit that this has been the case—it should not be overlooked that the credit thus released to the German home market was available for the purchase of goods in this market, and that a great deal of that credit was undoubtedly used in this way.

The Statistical Abstract of the United States for the year 1930, published by the United States Department of Commerce, and the pamphlet Foreign Trade of the United States, also published by the United States Department of Commerce, indicate that in the year 1929, the exports of what are termed "movable goods," which includes agricultural products, mineral and oil as well as manufactured goods, amounted to about 9 $\frac{1}{2}$  per cent of the total production. The gross figures involved here are a total production for the year 1929, somewhat in excess of \$52,000,000,000 and an export total somewhat in excess of \$5,000,000,000.

The Department of Commerce lists Canada as receiving from us in 1929, exports in excess of \$850,000,000, the United Kingdom in excess of \$840,000,000, South America in excess of \$536,000,000, Germany in excess of \$400,000,000, and France in excess of \$262,000,000. Among the smaller countries, the exports to Sweden exceeded \$58,000,000, the exports to Denmark exceeded \$50,000,000, and the exports to Norway exceeded \$23,000,000.

The tendency in recent years has been towards a relative increase in the export value of manufactured articles where American quantity production is a factor in costs, and a relative decrease in the export value of agricultural commodities because of the large-scale development of other agricultural countries. I should suppose that this exportable surplus of nearly 10 per cent of our production was a highly important factor in our national profit and loss statement, but, if these countries were to be in position to take from us this large volume of goods, adequate credit machinery had to be provided for the purpose. I should suppose, therefore, that a free market in foreign credits, both long and short, was a factor of great importance to the American exporter and, therefore, to the whole of American commerce.

Regarding the question of priorities as between debts owned by governments to governments and debts owned by governments, corporations, or private individuals to other private individuals, it seems to me that a creditor government must necessarily take a strong interest in the development of the commercial life of a debtor country. The service on foreign debts reflects two things; taxes and the ability of any given country to do an export business and obtain gold exchange.

That is, if the merchants and exporters in a country can not function, it seems to me that the basis of taxation and the ability to obtain gold exchange is necessarily greatly impaired.

After the war, Europe was nearly bare of working capital and her merchants could not resume normal commercial life, pay taxes, and obtain gold exchange from their export business unless they had working capital to do it with. If private debts are forced to default on a large scale, the economic life of any country is at a standstill and its ability to pay intergovernment debts is tremendously affected.



# SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

MONDAY, JANUARY 11, 1932

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Friday, January 8, 1932, in the committee hearing room in the Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Reed, Shortridge, Couzens, Thomas of Idaho, Jones, Harrison, King, George, Connally, and Gore.

Present also: Senator Johnson.

The CHAIRMAN. The committee will come to order.

Senator JOHNSON. Before we begin with the testimony, Mr. Chairman, I should like to request—or if Mr. Dennis is here he might be sworn.

The CHAIRMAN. Mr. Dennis, you will please come forward, hold up your right hand and be sworn: You do solemnly swear that the evidence you are now going to give in the hearing being held by this committee will be the truth, the whole truth, and nothing but the truth, so help you God.

Mr. DENNIS. I do.

## TESTIMONY OF LAWRENCE DENNIS, NEW YORK CITY

(The witness was duly sworn by the chairman of the committee.)

Senator JOHNSON. Mr. Chairman, I offer for the record, first, an article appearing in the Baltimore Sun of yesterday, Sunday, January 10, 1932, by Mr. Drew Pearson, particularly for the purpose of having in this record the letter of S. Parker Gilbert, a different communication from that which heretofore I have put in the record; and the letter as well of Sir William Leese concerning German loans.

I read the letter of Mr. Gilbert so that it may be a part of this hearing and of this record. The letter is dated at Paris, November 3, 1926, and is as following [reading]:

I am constantly amazed at the recklessness of American bankers in offering to the public the securities of German States on the basis of the purely German view of article 248 of the treaty of Versailles. It is true that the article is a difficult one to interpret, but one thing at least is clear, namely, that the Reparations Commission and the allied governments have never accepted the German point of view as to the meaning of the article.

### UNCONVINCED BY VIEW

I should personally go further and say that from a legal standpoint the argument for the German position impresses me as unconvincing. In any event, the fact remains that the treaty of Versailles is not a unilateral document and it follows, I think, that a German interpretation of it which is not

in any respect accepted by the other signatory governments has no legal importance.

It is a simple matter, of course, to get letters from the financial authorities of the German states setting forth the German point of view and I can easily understand the willingness of the German authorities to sign letters stating the German point of view, but it does seem to me difficult to justify the action of the American bankers in offering the securities to the public on the basis of such letters without giving the slightest hint that the German point of view is not accepted by the Allied governments and that, in fact, the Allied point of view is diametrically opposed.

#### CALLED GERMAN CONTENTION

I have just noticed in the New York Times the American prospectus for the recent loan of the State of Hamburg. I don't know whether this is a prospectus which the office—

That is, the office to which Mr. Gilbert is writing, one of the international bankers—

had to pass on, but it does seem to me open to much the same criticism. It is a German view as I understand it that article 248 is in suspense so long as Germany faithfully performs her obligations under the expert's plan, but this is purely a German contention and it has not been accepted by either the Allied governments or any of the reparations authorities.

I offer as well the letter of Sir William Leese, dated October 26, 1926, which Mr. Gilbert placed before the Reparations Commission and before certain American bankers, and which was open to all international bankers then and subsequently, when they were making their various loans. I do not read all of that letter unless the chairman desires it, but I state its contents.

The CHAIRMAN. It will go into the record.

Senator JOHNSON. I state its conclusions so that there may be no mistake from that point. I quote from the letter:

Upon this point—

Which means the point which he makes—

both prospectuses—

that is, the prospectuses in respect of German loans to which he refers in his letter—

are in my opinion substantially untrue and misleading.

There is one other thing I wish to put in the record.

The CHAIRMAN. Right there your article will be made a part of the record.

GILBERT OPPOSED REICH LOANS IN 1926—LETTERS TO BANKERS REVEAL STAND TAKEN BY AGENT GENERAL FOR REPARATIONS—WARNED BY KELLOGG—BRITISH EXPERT CHARGED PROSPECTUSES ISSUED TO BOND BUYERS WERE MISLEADING.

By Drew Pearson (Washington Bureau of the Sun)

WASHINGTON, January 9.—Further evidence of how American officials tried to stem the tide of American loans which the bankers poured into Germany to the extent of \$1,300,000,000 during the past decade was revealed to-day in the form of a letter written by S. Parker Gilbert, agent general for reparations, to representatives of a leading banking firm.

Other letters and cablegrams exchanged between Gilbert and banking representatives also have come to light, all pointing to the fact that Germany was being overloaned and that reparations payments had priority over private loans.

## CHARGES MISREPRESENTATION

"I am constantly amazed at the recklessness of American bankers in offering to the public the securities of German states on the basis of the purely German view of article 248 of the treaty of Versailles," Gilbert wrote to representatives of the bankers as early as November 3, 1926.

He went on to point out that the bankers connected with the 1926 loan to the State of Hamburg had misrepresented the situation in Germany to the American public.

Secretary of State Kellogg in letters addressed to all American bankers floating German loans had urged that the American investing public be warned of the risks in Germany in view of the fact that reparations were placed before private debts:

## KELLOGG ISSUES WARNING

"The department believes that you should consider whether you do not owe a duty to your prospective clients fully to advise them of the circumstances," Mr. Kellogg had warned.

Another letter which Mr. Gilbert placed before the Reparations Commission and before the State and Treasury Departments was one written by the British financial expert, Sir William Leese, of the Bank of England, who held that American bankers had failed to warn the American investing public and that the prospectuses issued to bond buyers were "substantially untrue and misleading."

Mr. Gilbert's letter was especially concerned with the \$20,000,000 loan to the Free State of Prussia in the autumn of 1926 and with the loan of \$10,000,000 to the state of Hamburg floated at the same time. The banking syndicate for the latter consisted of Kuhn, Loeb & Co., International Acceptance Banks (Inc.), Brown Bros., J. Henry Schroeder Banking Corporation, and Lee, Higginson & Co.

## TEXT OF LETTER GIVEN

Bankers for the Prussian loan were Harris-Forbes Co., Brown Bros., Equitable Trust Co., International Acceptance Banks, and J. Henry Schroeder Banking Corporation.

Mr. Gilbert's letter, dated Paris, November 3, 1926, follows:

"I am constantly amazed at the recklessness of American bankers in offering to the public the securities of German states on the basis of the purely German view of article 248 of the treaty of Versailles. It is true that the article is a difficult one to interpret, but one thing at least is clear, namely, that the Reparations Commission and the allied governments have never accepted the German point of view as to the meaning of the article.

## "UNCONVINCED BY VIEW

"I should personally go further and say that from a legal standpoint the argument for the German position impresses me as unconvincing. In any event, the fact remains that the treaty of Versailles is not a unilateral document and it follows, I think, that a German interpretation of it which is not in any respect accepted by the other signatory governments has no legal importance.

"It is a simple matter, of course, to get letters from the financial authorities of the German States setting forth the German point of view and I can easily understand the willingness of the German authorities to sign letters stating the German point of view, but it does seem to me difficult to justify the action of the American bankers in offering the securities to the public on the basis of such letters without giving the slightest hint that the German point of view is not accepted by the allied governments and that, in fact, the allied point of view is diametrically opposed.

## "CALLED GERMAN CONTENTION

"I have just noticed in the New York Times the American prospectus for the recent loan of the State of Hamburg. I don't know whether this is a prospectus which the office (to which Gilbert was writing) had to pass on, but it does seem to me open to much the same criticism. It is a German view as I

understand it that article 248 is in suspense so long as Germany faithfully performs her obligations under the expert's plan, but this is purely a German contention and it has not been accepted by either the allied governments or any of the reparations authorities."

The letter of Sir William Leese, dated October 26, 1926, which Mr. Gilbert placed before the Reparations Commission and before certain American bankers who consulted him as further evidence of the risk involved in Germany, follows in full:

"The question upon which I am asked to advise is whether certain statements in the prospectus issued by the city of Hamburg and State of Prussia in connection with their recent loans conflict with the terms of the German external loan of 1924. The statements to which I am referring relate (a) to security and (b) to the retention of acquisition of foreign currency.

"(a) Security.

"In both prospectuses it is stated that no part of the state revenues or priority has been pledged by the state in question as security for any loan and a covenant is given that in the event of any future pledge or charge the bonds of the present issue shall be secured by such pledge or charge equally and ratably with other indebtedness thereby secured.

"In each case it is further stated that some of the enterprises in which the state is interested have to make early payments to the Reich in respect of obligations under the Dawes plan in the same manner as private industries of like character.

"In the Prussian prospectus, but not in the Hamburg prospectus, reference is made to article 248 of the treaty of Versailles and to the fact that certain specific revenues are pledged to secure the payments which have to be made by Germany under the Dawes plan.

#### "ACCURACY IS QUESTIONED

"Notwithstanding this reference in the Prussian prospectus, the impression which both prospectuses are calculated and perhaps intended to make on the mind of the investor is that the general charge imposed by the Treaty of Versailles upon 'all the assets and revenues of the German Empire and its constituent States' no longer affects the assets and revenues of the constituent States, but has been superseded or satisfied by the Dawes plan.

"It is necessary then to consider the accuracy of this impression and if it is inaccurate, the possible effect upon holders of the 1924 external loan and of the newly issued State loans.

"It may well be that so long as Germany performs her obligations under the Dawes plan, no further charge could, consistently with that plan and with the London agreements, be imposed. For an essential feature of the plan is the ultimate definition of Germany's obligations. But the treaty charge has not been superseded and a failure by Germany to comply with the Dawes plan might make it necessary to assert the treaty charge.

#### "IMPRESSION CALLED INACCURATE

"It follows that the impression made by the prospectus is inaccurate and it appears to me that the inaccuracy might have been avoided. For since article 248 enables the Reparations Commission to exclude particular assets and revenues from the treaty charge, the State issuing a loan in terms which state or imply that its assets and revenues are not subject to any charge should first safeguard its position and that of the bondholders by applying to the commission for the necessary exemption.

"In what way were then our holders of the 1924 external loan and the State bonds, respectively affected? And can any conflict arise between them?

"Security for the 1924 loan is:

"1. The direct obligation of the German Government, which is not, in the legal sense, a security or charge.

"2. A first charge on the payments provided by the Dawes plan.

"3. A first charge by way of collateral security on the controlled revenues.

#### "SECURITY IN DAWES PLAN

"The 1924 loan therefore rests for security on the Dawes plan. It is not supported by the general treaty charge, but only by its payments made under the plan and collateral security, which, as part of the plan, is given for this.

If the plan breaks down and the collateral security is inadequate for the payments, to be made under it or even for service of the loan, the bondholders are not entitled to assert the general treaty charge in their favor.

"It is possible that if (1) the Dawes plan broke down and (2) the Reparations Commission then decided to enforce the treaty charge upon State revenues and assets, and (3) further decided to support the 1924 loan by means of this new charge, a conflict might arise between the 1924 bondholders who would then claim the benefit of such new charge and the holders of State bonds who would claim that they had taken their bonds upon the faith of the statement that the State revenues and assets were charged.

"But it is, I think, only in this remote sense that upon the question of security any possibility of conflict could arise. While the Dawes plan stands there is I think no such possibility.

"(c) The retention of acquisition of foreign currency.

"PROSPECTUSES CALLED UNTRUE

"Upon this point both prospectuses are in my opinion substantially untrue and misleading. They state that no German law nor any international engagement assumed by the German Government involves any restriction upon the acquisition by the State in question of the foreign exchange requested to meet the external obligations evidenced by its bonds. This may be literally true in the sense that at the present moment, so far as I am aware, it has not been found necessary by the German Government to impose in any quarter any restriction upon the acquisition of foreign currency and perhaps for that reason it is more misleading, for it is far from the whole truth.

"The fact of the Dawes plan and London agreements (see Dawes plan, sec. XIII and annex G, sec. 7. Blue Book pp. 35, 36, 110, 112) is that if it becomes necessary in order to safeguard the transfer of funds representing payments to be made under the plan, including services of the external loan, many will take all such steps as are necessary on her part to control foreign exchange. And it is not to be doubted that this is a vital part both of the plan as a whole and of the scheme of the external loan. Germany, therefore, has in effect assumed an obligation which may at any moment make it necessary for her to restrict the acquisition of foreign currency, either by individuals or by her constituent states. If the occasion arises and she fulfills her obligations, the result may be to prejudice the holders of the new state bonds. The holders of the 1924 loan, whose rights are clearly set out in the statement of Doctor Luther attached to the prospectuses of that loan will not, I think, be affected except that it may be more difficult to make Germany fulfill her obligations if by so doing she will bring herself into conflict with the constituent states."

The CHAIRMAN. Mr. Dennis, what business are you in?

Mr. DENNIS. I am now a financial writer. I was in the investment banking business up to two years ago.

The CHAIRMAN. A financial writer for what?

Mr. DENNIS. I am writing independently. I have just written a book which is being published by Harper Bros. It is a business book.

The CHAIRMAN. Do you live in New York?

Mr. DENNIS. Yes, at 27 West Forty-fourth Street.

Senator COUZENS. What houses were you connected with in connection with international loans?

Mr. DENNIS. I was with J. & W. Seligman & Co., 54 Wall Street.

Senator COUZENS. With any other house?

Mr. DENNIS. No.

Senator JOHNSON. Mr. Dennis, will you state first—or I believe that now your residence is in the city of New York.

Mr. DENNIS. Yes, sir.

Senator JOHNSON. And you have resided there how long?

Mr. DENNIS. I have resided there since 1927.

Senator JOHNSON. Prior to that time what was your place of residence?

Mr. DENNIS. I was in the Diplomatic Service for seven years or more, and was in different posts abroad.

Senator JOHNSON. During the period that you were in the Diplomatic Service what posts abroad were you in?

Mr. DENNIS. I served in Haiti, and Rumania, and Nicaragua, and Honduras—

Senator JOHNSON (interposing). Were you in any of the states of Latin America during the time you were in the Diplomatic Service?

Mr. DENNIS. I was in Haiti, Nicaragua, and Honduras, yes.

Senator JOHNSON. Subsequent to your being in the Diplomatic Service were you in any other service of the United States Government?

Mr. DENNIS. No, sir.

Senator JOHNSON. Were you familiar with the conditions existing in the various countries where you served as diplomatic agent?

Mr. DENNIS. I was American chargé d'affaires for about 10 months in Honduras, and for about 7 months in Nicaragua, so that I had some knowledge of conditions there I should say.

Senator JOHNSON. Were you at any time in Peru?

Mr. DENNIS. Yes, sir.

Senator JOHNSON. For how long a period?

Mr. DENNIS. I was in Peru from about the end of January of 1928 until April of 1929. And I was there again for three months in 1929-30. And during that period of about a year and a half I made extensive trips into Bolivia and the Argentine and Chile.

Senator JOHNSON. During that period did you become familiar with conditions existing in Bolivia, the Argentine, and Chile?

Mr. DENNIS. To some extent. My greatest knowledge of course was in Peru because I spent the most of my time there, but I became thoroughly familiar with conditions in these other countries, I think.

Senator JOHNSON. During that period of time that you were in South America, did you become familiar with the financial situation of the countries mentioned, the making of loans, the issuance of bonds, and the like?

Mr. DENNIS. Of course, that was my particular occupation.

Senator JOHNSON. When you say that was your particular occupation during that time, were you in the employ of any particular firm?

Mr. DENNIS. Yes. I went down there for J. & W. Seligman & Co. I went down there more or less to study the situation and to report on it to them.

The CHAIRMAN. Are you in their employ now?

Mr. DENNIS. No, sir. I left them in April of 1930. I resigned in August of 1929, and then they asked me to go down to Peru again. So I went down there for about three months, and came back in January of 1930, and finally left J. & W. Seligman & Co. in April of 1930.

Senator JOHNSON. You left them at that time to enter into business on your own responsibility?

Mr. DENNIS. Yes, sir.

Senator JOHNSON. Were you familiar with the situation in Chile in relation to the nitrate concessions at all?

Mr. DENNIS. No. In Chile, you see, my firm, or I mean the firm I was with, had made no loans. I was there for a few weeks studying the situation generally. I got all the information I could from the minister of finance, and I traveled around all over the country. But I did not have any inside information of these things, other than what I read in public documents.

Senator JOHNSON. And as to Bolivia, what would you say?

Mr. DENNIS. In Bolivia I stayed a couple of weeks, and I traveled around quite a bit, and had several interviews with people in the fiscal commission there, and I looked into that last loan they made. I took a great interest in finding out how the money was spent, and all that sort of thing, purely as a matter of completing my picture of the South American situation. As a matter of fact, I went on that trip of my own volition, but my firm insisted on paying my expenses afterwards. They thought it was very useful travel for them. I was investigating somewhat academically the general situation, but was not seeking business.

Senator JOHNSON. Were you familiar with the loan made in 1928 by Dillon, Read & Co.—I mean the loan that was made by Bolivia and floated in this country by Dillon, Read & Co. in 1928?

Mr. DENNIS. About the only thing that interested me in relation to that loan was the use to which it was put. About the only detail I recall is that I got the statement of the minister of finance of the purpose of the loan, and that I thought was rather interesting, and as to the negotiation of the loan. I had heard a lot of things about the matter but I did not confirm them, but I did try to confirm the use of the loan—how the money was spent.

Senator JOHNSON. What did you say? As to how the money was spent?

Mr. DENNIS. Yes. I was rather struck with the fact that the loan, or at least that \$5,000,000 of it, went to pay for arms to Vickers in London.

Senator HARRISON. What was that statement?

Mr. DENNIS. I have all of the figures if you care to have me read them.

Senator JOHNSON. Go ahead and state about that.

Mr. DENNIS. I learned that \$1,037,000 was spent for the redemption of F. C. Potosi-Suere bonds, which I thought was quite all right, as it was for railroad construction. That is, of course, assuming that the railroad was productive. There was another \$378,000 spent for an electric railroad, the F. C. Electrico de Cochabamba. There was \$1,029,000 spent for redeeming sanitary bonds to Ulen & Co. And then there was \$5,061,000 paid on account of the Vickers contract for arms purchases. I thought that was a rather unusual thing, because the arms were supposed to be paid for in five years, and the debt was funded in 34-year 7 per cent bonds. A phase of that loan which was interesting to me was that they took \$3,904,000 to pay off deficits, which included quite a large item for delayed salaries of Government officials. And then there was \$7,500,000 that went to redeem credits—the floating debts of the Government—of the national bank and other banks of the country. And only \$2,259,000 of the loan went for new

public works. Of that amount I was told in the ministry of finance that \$1,500,000 had been retained by the minister of war presumably for use in connection with military activities in El Chaco. Of course he said, as I understood, that he was using the money for building roads down there.

Senator SHORTRIDGE. Do you know anything about it?

Mr. DENNIS. Nothing other than what the member of fiscal commission told me.

The CHAIRMAN. When did you get it?

Mr. DENNIS. In February of 1929; sometime in the month of February.

The CHAIRMAN. Were you interested down in that country at all?

Mr. DENNIS. The firm was interested in all South American financing, and they wanted me to study the whole situation, and I wanted to get a clear picture of it. They were making loans all over there, but I was not negotiating any loans for them. I was getting information.

The CHAIRMAN. And when you refer to "the firm," who was that?

Mr. DENNIS. J. & W. Seligman & Co.

Senator SHORTRIDGE. What house are you connected with now?

Mr. DENNIS. I am acting in an independent capacity now, as a financial writer.

Senator SHORTRIDGE. And I believe someone said you were writing books?

Mr. DENNIS. Yes, sir.

Senator KING. Senator Shortridge, he stated before you came in that he was in the diplomatic service. For how many years was that, Mr. Dennis?

Mr. DENNIS. For about eight years.

Senator JOHNSON. You were not negotiating loans in any aspect for J. & W. Seligman & Co.?

Mr. DENNIS. No. I never negotiated any business at all.

Senator JOHNSON. You were acting as financial and diplomatic advisor, or is that what you would term it?

Mr. DENNIS. Yes. I was in a sort of financial advisory capacity when I went down to Peru. They had had a representative in charge of the negotiations. I had nothing to do with that at all. But I did accompany the representatives in visiting the President and the Minister of Finance, and I was conversant with all that went on.

The CHAIRMAN. At that time did you think the loan was an improper one?

Mr. DENNIS. Yes. I thought it was unsound. And of course I stated that repeatedly. I made a great many studies to support that view.

Senator SHORTRIDGE. That is, you mean the loan to Peru?

Mr. DENNIS. Yes, the various loans. The two large loans to Peru, yes, sir.

Senator JOHNSON. Were your reports in writing?

Mr. DENNIS. Oh, yes.

Senator JOHNSON. That you submitted to your firm?

Mr. DENNIS. Yes.

Senator JOHNSON. And did those reports as you say conclude that the loans were unsafe or unwise?

Mr. DENNIS. Yes. I stated that the way things were going the loans would be in default within five years.

Senator JOHNSON. And they are in default to-day?

Mr. DENNIS. Yes. The way things were going the loans had to be in default within five years. I predicted that. I stated of course that something might happen to avert bankruptcy. I always made a number of reservations. For instance, if a world war were to come along and create a great demand for South American products it might make it possible to pay the loans off. But with unbalanced budgets, and in view of the way the money was being spent, bankruptcy seemed inevitable. I went around and looked into the public works, into the different jobs, and tried to evaluate what the works should have cost at a fair price, and what they did cost in the way the money was spent.

Senator SHORTRIDGE. Were any contracts for public works given to Americans?

Mr. DENNIS. Oh, yes; quite a few of them. There were a few American firms which had contracts.

Senator KING. And I believe Ulen & Co., I heard you mention a moment ago.

Mr. DENNIS. In Peru The Foundation Co. had a great many contracts for public works, in the cities, sanitary works, water works, and for street paving. And there was also a small company named Gildred & Co., I think there was another American construction company that had been down there for some time.

The CHAIRMAN. All those contracts were made on bids submitted, were they not?

Mr. DENNIS. They were let on bids usually; yes. Some of them I think were on a cost-plus basis, too.

Senator SHORTRIDGE. And those Peruvian issues are in default now?

Mr. DENNIS. Yes, sir.

Senator JOHNSON. You said that you had pursued the expenditure of the moneys for the various contracts.

Mr. DENNIS. Yes, sir.

Senator JOHNSON. Did your knowledge thus derived lead you to the conclusion that there would be an ultimate default in the loans?

Mr. DENNIS. Yes. And I based my conclusion of course largely on the fact that a government can not go on with an unbalanced budget. That is, with the budget unbalanced and making foreign loans, a government could not go on indefinitely without going into default. I knew the resources of Peru, and I knew from those resources that she was struggling under a heavy load. That is, of course, when you are borrowing you can more or less calculate, how much money you may borrow and pay the service charges based on the then income. But you must also estimate what the future income is likely to be. The point is that the Peruvian borrowing increased much faster than the income of the country. And I have some figures of their own ministry that will support that general conclusion.

Senator JOHNSON. And were those figures accessible to those who dealt in Peru's securities?

Mr. DENNIS. Oh, yes. And I reported all those things to them. I gave them thorough and complete information. They had all these figures. They were accessible, perfectly accessible.

Senator JOHNSON. Now referring to yourself or to your own report particularly, did the figures in respect of Bolivia, wherein there is now default, were they accessible to all?

Mr. DENNIS. Oh, yes. The bankers who were dealing with Bolivia had that information.

Senator JOHNSON. The international bankers who were dealing with Bolivia were in possession of that information, or at least the figures were accessible to them?

Mr. DENNIS. Yes. Of course it so happened in Bolivia that the accounts of the Government had not been balanced since the World War. So no one could tell where all the money had been spent or how. All you could tell in Bolivia really in regard to Government accounts was the amount of the floating debt. The Government simply had not kept its accounts in order. In Bolivia right up to 1928 there was a situation of complete chaos and disorder as to the accounts. They had not rendered their fiscal accounts in any one year since the war.

Senator COUZENS. Who underwrote the Bolivian loan?

Mr. DENNIS. I beg pardon?

Senator COUZENS. Who underwrote the Bolivian loan?

Mr. DENNIS. The last one was underwritten by Dillon, Read & Co. There was an earlier one, I think, by Blair & Co.

Senator JOHNSON. The last one in 1928 was floated by Dillon, Read & Co.?

Mr. DENNIS. Yes, sir; of \$23,000,000.

Senator JOHNSON. And that is in default?

Mr. DENNIS. That is in default now, I believe.

Senator JOHNSON. And so far as the record existed, conditions in Bolivia must have been known to any banker dealing with the finances of that country, must it not?

Mr. DENNIS. I should say so, yes.

Senator JOHNSON. At any rate, it was there to be seen, and if there was any investigation made that investigation would have disclosed that loans of the character that were made were not only unwise but likely would be later in default, I take it?

Mr. DENNIS. I think so, yes.

Senator JOHNSON. And that would apply to Bolivia and to Peru as well?

Mr. DENNIS. Yes, sir.

Senator JOHNSON. Now, were you familiar at all with the loan floated for the electrification of a railroad in Brazil?

Mr. DENNIS. Not with the negotiations. The only fact that struck me about that loan was that they pledged the gross revenues of this railroad and yet the railroad had never operated for a single year of its history without a deficit, or I believe it did for one or two years. But I considered it somewhat of a misrepresentation to pledge the revenues of a railroad to a loan when the road is operated at a deficit. But that is modern banking practice that I always protested against. I do not think a government has the right to pledge anything except the net income from a property; you can

not pay loan service out of gross revenues when they are not enough to pay operating costs.

Senator JOHNSON. Are you familiar at all with the loan that was made to Brazil, a part of which was secured by the receipts of this railroad that was to be electrified?

Mr. DENNIS. Well, as I say, I had had nothing to do with it. I only studied it as I studied a number of other loans.

Senator JOHNSON. I was asking to see whether or not you did study that situation at all?

Mr. DENNIS. Well, not as thoroughly as I did the Peruvian situation. I just glanced at it, and at some of the details that went into it, but I have forgotten a good many of them now. The main fact of the matter was that this was a \$25,000,000 loan, and the railroad has always operated at a big deficit, so that it is really a liability rather than an asset.

Senator JOHNSON. Do you know whether or not up to the present time there has been any electrification of a particular railroad the earnings of which were to pay a part of the loan?

Mr. DENNIS. I do not know. I would not say.

Senator JOHNSON. I think it is in testimony that there has not been. But there is the expectation perhaps that in the far future or the near future, as the case may be, that conditions might be better. You have devoted yourself, have you not, to the financial situation in Latin America in great degree?

Mr. DENNIS. Yes, I have. I have written some on it.

Senator JOHNSON. You have written upon the subject and you are familiar with the subject, are you not?

Mr. DENNIS. In its broader aspects, I think I am.

Senator JOHNSON. Can you discuss with the committee, therefore, as an expert the matter of making loans of considerable magnitude in Latin America, and to the extent with which you are probably familiar, would you express your view respecting it?

Mr. DENNIS. Yes, I think so.

Senator JOHNSON. I should be very glad if you would do so.

Mr. DENNIS. Well, there are various theories about foreign loans, of course. I think that the bankers have the obligation to see that a loan does not exceed the capacity of the government to cover the service charges in normal times. It is a very significant fact that when you are lending money the revenues of a country can be increased by taxation abnormally, during that lending period. And that is what happened in many of these countries.

Now, to go back to the beginning, after the World War all Latin American countries were bloated with gold or gold exchange, as a result of profiteering during the war. They were able to sell their goods at high prices in gold exchange, and they had relatively low costs of production in internal money. They made enormous profits. They did very well during the war. At the end of the war the logical thing to do was to balance their budgets and not to borrow. There was never a time in history when they needed less to borrow money than in the postwar period. That was the conclusion I reached. Had they followed that course at the end of the war, they would have exported some gold and paid their way. In addition they would have had sufficient gold to cover expansion of credit.

For instance, the Argentine, as late as 1927, had about \$700,000,000 of gold, or around \$60 or \$70 per capita, for each inhabitant, while Great Britain had only \$17 of gold per capita, and it is a banking country. The Argentine, like the other South American countries, had too much gold in its vaults. Therefore, it was absurd, from a credit point of view, to have loaned those countries money after the war.

In the case of Peru I might analyze some bank figures that will illustrate the point I am trying to make in this connection. I will take periods of five years from 1909 to 1927. I took the loans by the banks, the reserve banks, the total bank deposits, and the paper currency. I lumped together the currency and deposit liabilities. I lumped together the total gold holdings of the country; that is to say, the gold reserve in the Reserve Bank, and the foreign credits of the banks. I then figured the percentage of gold against deposits and currency, which I believe is the proper way to calculate the gold coverage in a country. There is no point in calculating gold coverage against outstanding note issues. That was a great fallacy by which investors were misled. The bankers pointed to the ratio between gold and notes. The significance of gold is its ratio to the amount of bank credit, not merely to the amount of notes. Bank notes tend to be rather stable in quantity, but you can expand indefinitely the volume of bank credit.

Now, during the 5-year period from 1909 to 1913 the loans by banks in Peru averaged 5,500,000 pounds. During the 5-year period from 1914 to 1918 the average volume of bank credit was 5,600,000 pounds. During the period from 1919 to 1923 the volume of bank loans was 10,000,000 pounds. You see it had doubled. And from 1924 to 1927 it was 17,000,000 pounds. You will there notice the inflation in bank credit.

At the end of 1919 the total amount of gold in the country was 50 per cent of the currency and deposit liabilities. That is an enormous gold reserve. This ratio is not against currency alone but against currency and deposit liabilities combined.

Senator SHORTRIDGE. Do you regard that as an unsafe or an unwise condition?

Mr. DENNIS. Oh, no. I regard that as a very strong position for credit, you see. That is why I say they needed no loans. But instead of using that gold—

Senator SHORTRIDGE (interposing). Who had the gold?

Mr. DENNIS. This was held largely by the Reserve Bank of Peru. They had about \$30,000,000 in gold, or to be more exact we will say 5,800,000 pounds of gold or gold exchange, and the reserve bank had the most of it. The banks, of course, had not much specie gold but a great deal of gold exchange, which I count. Now, instead of taking the ban off the export of gold or reestablishing the gold standard after the war, they kept the gold standard in suspense. During the war there had been a suspension of the gold standard. They did not export or import gold during the war, and the exchange value of the Peruvian pound went up above par. The American dollar was quoted at over \$5 to the pound. The average rate in 1918 was \$5.27 to the pound. That was because the reserve bank in New York was not exporting gold. It would earmark gold for foreign

customers but would not export gold until the end of the war. We held our gold here during the war.

The point I am making is that at the end of the war, and this situation was typical of all countries, Peru had approximately 50 per cent of gold for her combined currency circulation and bank deposits. From this gold position the obvious thing to do was to put the gold standard into effect. That would have meant that some of that gold would have flown out of the country, and the country would have done a little borrowing abroad but not very much. The Government would have balanced its budget. But, instead of that, they maintained an embargo on gold. This gold was held; hence they did not export gold. And then the Government began to borrow abroad. This gold that they borrowed abroad was used to balance their international payments and to support an unhealthy inflation of credit. This you can see from the volume of bank deposits in the country through 1919 to 1923. That is, from 1914 to 1918 when they were really producing and exporting at a huge profit, the volume of bank credit was not expanded over the pre-war quantity to any extent. But after the war, while prices were falling, they proceeded to inflate their bank credit. They would not have done that had they reestablished the gold standard.

Senator SHORTRIDGE. As of the time of the making of the loans, what was the condition of their Government treasury?

Mr. DENNIS. The condition of the Government treasury was that they were spending in excess of their income. They were running with a deficit. They would borrow to pay the deficit or the floating debt of a year or so, and then they would get a big loan and pay off a part of the floating debt. Then they would start building up some more floating debt and would get another loan and pay that off. Those loans produced constant inflation, based upon the fact that they did not have to reduce their gold stock which they kept in bank, but balanced their international payments by new loans. The Government loans served two purposes: In the first place, they enabled the Government to spend more than its revenues. In the second place they kept the country's gold and gold exchange in the banks to support credit expansion.

Senator JOHNSON. Did they continue to increase their total of national debt?

Mr. DENNIS. Yes, sir. The figures show that they increased their national debt \$106,000,000 from 1919 to 1929. And during that period their exports only increased 17 per cent in value. I have the figures here from their statistician. He reduced these figures to indexes: The public debt increased from 1919 to the end of 1928 by 283 per cent. That is nearly threefold. The public revenues increased 94 per cent. Of course when you are borrowing and spending money like that you can raise taxes because the people do not mind it. That was one of the points about which the bankers deceived themselves. I pointed that out constantly. While a country is borrowing heavily abroad the people can easily bear increased taxes. And you can see that that creates a fictitious situation. The bankers evolved a formula that was wholly unsound. They said that if loan charges were covered three times by revenues then the loan was sound. But, of course, that is a fallacious argument, be-

cause while you are borrowing you can raise taxes, but once you stop, then taxes must go down. During this period public expenditures increased 140 per cent and taxes increased 94 per cent. The debt increased 283 per cent.

Senator JOHNSON (interposing). As to what country?

Now, it is interesting to bear this in mind—

Mr. DENNIS. Peru.

Senator JOHNSON. Go ahead.

Mr. DENNIS. The exports increased in value 17 per cent. The imports increased 41 per cent. The people were able to pay for more imports with the proceeds of these loans.

Another good index of the measure of the country's prosperity may be taken from railroad figures. The number of passengers transported on the trains annually increased 5 per cent over a 10-year period, and the freight transported, corresponding to our carloadings, increased 14 per cent.

The general indication of those figures, then, is that the country was increasing its debt three-fold, and increasing its taxes a little less than 100 per cent, while the value of its production was increasing only 17 per cent. In other words, the country was running its debt rate straight up, while its income was increasing very slowly. This was a period of falling prices in the export line. Obviously, in a period of falling prices the income of the country in foreign currency must eventually decline. They managed to keep their income up for a time by increasing the volume of production. They exported more copper, petroleum, cotton, and sugar. As the prices went down, they kept increasing the quantity as far as they could, but finally, in 1929, the prices fell so fast that it was impossible to increase the quantity sufficiently to maintain the same volume of income.

Therefore, I would say those loans served two large purposes. They enabled the Government to spend beyond its income. They enabled the banks to maintain an unsound volume of credit in the country. That is also reflected in the index of wholesale prices. Taking 1913 as 100 in Peru, and taking the United States Bureau of Labor Statistics figures in the United States as 100, you will note these comparisons. At the end of 1919, the prices in Peru were 219; in the United States, 206.

Senator SHORTRIDGE. What do you mean by that?

Mr. DENNIS. That is the index of prices. That is the composite of wholesale prices. This is just to show you how the drop took place here and did not take place there. At the end of 1920, it was 205 in Peru and 147 in the United States. In 1920 we had a big deflation in the United States. The bottom dropped out of wholesale prices in this country, but down there they did not let prices drop. The reason was because they did not deflate. What should have happened there was the collection by the banks of a lot of their loans, or else the banks should have reorganized as a great many banks did here. They should thus have kept their currency and credit situation sound. They did not do that there as we did here. Consequently, their prices did not fall. The nation borrowed money abroad to sustain a fictitious price level. There was the Banco del Peru y Londres, which was insolvent from the war until 1931, when it was finally liquidated. It was perfectly evident that the bank was

insolvent. It was carrying half its capital, and sometimes all its capital, borrowed from the Reserve Bank of Peru. That unhealthy credit situation was maintained by means of the foreign loans. The price level was kept artificially high. The banks kept expanding their loans. The Government kept spending the majority of its income, and things were very merry.

The CHAIRMAN. Were you living in Peru at that time?

Mr. DENNIS. I was there from 1928 to 1929. These were the indications of the general situation. You could see the real-estate suburban developments. They were building up real-estate suburbs, plotting land, and paving streets out in the desert. It was an exhibition of all sorts of follies.

The CHAIRMAN. Did you give any warning to any of them at that time as to what the result would be?

Mr. DENNIS. Oh, yes. I reported all these figures, of course, in my correspondence to my people. The point I made there was that after the bankers had made the loan of 1927, and the country had increased its foreign debt to about ninety millions, drastic reforms were necessary to avoid bankruptcy. I said, "Before any more loans are made here, the Government should balance its budget within revenues, and the proceeds of these loans, and it should put the currency on the gold standard and curtail its borrowing, because things can not go on this way.

The CHAIRMAN. You put that in writing.

Mr. DENNIS. Yes.

The CHAIRMAN. In a letter addressed to whom?

Mr. DENNIS. J. & W. Seligman, in my constant correspondence with them. I have a memorandum here that possibly summarizes it. If you would like to have me read it, I can do so.

The CHAIRMAN. You can either read it or put it in the record. I do not care.

Senator JOHNSON. Read it.

Senator SHORTRIDGE. What is the point?

Mr. DENNIS. This was a part of my report. The Senator asked me if I had said this. I simply say that here is a copy of a summary of those points that I made.

Senator COSTIGAN. What is the date of the report?

Mr. DENNIS. April 15, 1929. This was a summary of all similar communications.

Senator JOHNSON. Suppose you read it, if it represents your present views.

Mr. DENNIS. Yes, sir [reading]:

In analyzing the position of public finances of a country as of a given period, one must take into account a great number of highly complex factors and data, many of which can only be stated approximately. Conclusions as to tendencies or trends must, naturally, be based on probabilities and assumptions based on past experience. One entertains grave apprehensions as to the future solvency of an individual or firm which one knows to be embarking on a series of new borrowings; to be spending without plan or budget, to be making a large number of uneconomic expenditures; to be disregarding its pledges, etc. One can never say what might happen if all these irregular and bad practices were discontinued and a new and sound course of finances adopted. One can only say that whenever finances have been conducted along similar lines, bankruptcy has invariably resulted.

That was my outstanding conclusion.

In taking stock of the Peruvian situation, one has not as adequate statistical data as one might desire. It is, therefore, necessary to interpret such data as one has and to supplement them with as much intimate first-hand knowledge of conditions or as to how things are actually being run as one can obtain.

The following factors, phenomena and data seem highly significant and to comprise most of things worth considering in connection with this problem:

**NOTE.**—A period of five years 1923 to 1927, with as much on 1928 as can be given at this time will be studied.

1. The growing annual excess of public expenditures over public revenues, as seen from the tables.

The government was spending the following amounts in Peruvian pounds in excess of revenues: 1,040,028 more in 1922; 477,995 more in 1923; 906,832 more in 1924. 1,851,667 more in 1925; 4,160,250 more in 1926, and 4,676,439 more in 1927.

These were the deficits, you see, which were covered by loans. The deficit was growing every year.

These data are highly significant. When a government's volume of expenditures becomes more or less fixed in a given volume over a considerable period as, say, three years, 1926, 1927, and 1928, it is nearly impossible to reduce that volume substantially without serious consequences for the economic, political, and social structure.

You see, one of the evils of this excessive borrowing is that it creates a scale of spending by the government and by private individuals which can not be maintained, and if you stop that borrowing, the economic life of the whole country collapses. Therefore, it is a very dangerous thing to initiate for two or three years a period of excessive spending and borrowing which can not be kept up, unless you can anticipate sources of new revenues to replace such borrowed income.

2. The total expenditure of the government which are listed as capital investments during the period: 975,396 for 1923; 1,594,073 for 1924; 1,964,733 for 1925; 2,502,735 for 1926; 4,004,425 for 1927 show that such so-called investments are tending to be in a smaller ratio of the annual excess of expenditures over revenues in recent years than they were five years ago.

**Senator SHORTRIDGE.** Was that for public works?

**Mr. DENNIS.** Yes; public works. I found by my studies that during the period of Mr. Leguia's presidency, he borrowed about \$106,000,000 and spent \$66,000,000 in public works. Supposedly, a large number of these loans were for public works, though, of course, a great deal went for operating deficits. As a matter of fact, only about two-thirds went for public works. [Continuing reading.]

In the last two or three years the annual excess of expenditures over revenues has been greater than the so-called investments in public works. In this connection, the following may be said: The amounts spent on so-called capital investments are approximately twice as much as the works are worth, because of graft and lack of economy in their creation. The works created yield an infinitesimally small money revenue to the government. Up to the present the government railways are all operated at a loss. Irrigation projects are yielding so far less than the operating costs. The Avenida Progreso, a toll road, is about the only public work earning more than its costs. The fiscalized wharves, of course, yield revenue, but how much of this is indirect taxation it is difficult to say. Certainly, a large part. Obviously, any public work like a wharf can be made to yield its costs and some revenue besides where it is a monopoly. Very little of the above capital investments, however, has gone for wharves; some 60,000 pounds out of 4,040,000 spent in 1927. The Callao dock will, doubtless, yield considerable revenue. It can, of course, be used as a taxing agency.

This observation is made merely to point out that no direct enhancement of the economic capacity of the country can be shown to have resulted from the Government's expenditures in anything like the amount of such expenditures. There may have been the requisite increase in national wealth due to other factors and causes to justify the increased public debt, but this would seem doubtful. This will be discussed further on.

3. The increase in the public debt. These data must be studied qualitatively as well as quantitatively. Peru had a small public debt in 1923, 11,616,000 pounds. The debt on June 30, 1928, was approximately 25,575,000 pounds, figured on the same basis. The significant fact is not so much the rapid increase of this debt as the change in its character. In 1923 only about four million of the eleven and one-half was foreign debt, less than 40 per cent. In 1928 some twenty-one millions of the twenty-five millions were foreign debt, or over 80 per cent.

It is generally accepted to-day among authorities that there are fundamental differences between internal debt and foreign debt which have the greatest importance. The service of the internal debt is only a matter of transferring wealth within the country. The country as a whole is no poorer for the service of the internal debt. With the service of the foreign debt it is quite different. The country is the poorer for the service of the foreign debt. If it receives from abroad corresponding additions to its wealth or capital, these drains for foreign debt service may be borne; otherwise not. Germany, under the Dawes plan, is a case in point. Peru is not receiving any considerable amounts of new foreign capital investments, as will be more or less demonstrated by the discussion of the bank data. Peru has reduced its internal debt from 7,609,479 pounds in 1923 to 5,870,391 pounds in 1928, while it has increased its foreign debt from \$18,600,000 in 1923 to roughly \$110,000,000 in 1928.

This raises a serious question as to the future capacity of Peru to meet the foreign loans service. Had the debt increase been entirely internal, there would be no question as to the future. The internal debt service could be met quite simply, as in France, by exchange depreciation until things were brought to the point where the internal debt could be consolidated and taken care of on the gold standard. France in going through the period of financing by inflation or bank credit, and in finally coming to stability was not laboring under an 80 per cent foreign debt. It had practically no foreign debt and avoided shouldering any fixed schedule of obligations on its war debt. France not only had this advantage of being saddled with an insignificant foreign debt service, less than 20 per cent of the total, but had also the advantage of being the second richest country in Europe in capital funds. Peru has no capital resources worthy of the name to carry the Government over a long period of deficitary fiscal administration. One has difficulty in recalling the record of a country financing such deficitary fiscal administration by foreign borrowing over a long period without large investments of foreign capital coming into the country all the while.

It is not certain whether Peru can or can not meet its foreign debt service as it now stands, provided no further material increases are made. It seems certain, however, that at the rate of increase in the foreign debt over the past three years as reflected by the figures accompanying this memorandum and at the present rate of increase in national wealth continued solvency can not be maintained.

In this connection it seems appropriate to say that figures as to the ratio of debt service to gross revenues have little value in view of what has been pointed out above. For instance, debt service has been substantially reduced in the annual amount of its incidence by refunding obligations payable in short terms into foreign obligations payable over 34 years, thereby increasing the total amount payable and the total ultimate drain on the national resources. For instance, funding the cost of submarines from 6-year obligations into 34-year obligations temporarily lightens the annual burden but aggravates the subsequent problem. No submarine ever lasted 34 years. The cost of no service or thing should be funded over a longer period than that of the utility of the service or thing.

Debt service figures have been omitted from this paper because it is felt that while they have been kept roughly in about the same percentage to revenues this fact has little significance.

It should also be pointed out here that the operation of refunding internal debt with external loans has created an artificial and unsound condition. Dur-

ing the period in which creditors of the Government are receiving foreign gold (in extinction of internal claims) the country is being momentarily enriched. There is an artificial credit (secondary) expansion and increased capacity to pay taxes. It has been possible under the stimulus of these foreign gold injections to raise taxes much more rapidly than it will be when such large amounts of gold exchange can no longer be released internally in Peru, due to these operations.

4. The increase in national wealth or capacity to meet foreign debt service is most difficult to study. In the case of Peru it would appear that one must try to form a judgment on the basis of import and export figures and bank operations. There is no adequate assessment of capital or data on income. Most of the production and consumption of the country is reflected in the import and export figures. Most of the business of the country passes through the hands of the banks. These data have been taken from the Report of Commerce for 1927, the reports of the bank inspector up to and through 1927, and the Memoria of the Reserve Bank for 1928.

From these data the following conclusions appear warranted:

(a) The value of exports has remained substantially stationary during the six years 1923-1928. Imports have increased up to 1926. During 1926, 1927, and 1928 they have remained stationary around 20,000,000 pounds. Probably the increase in imports has been due largely to the injections of gold exchange from foreign loans. This conclusion is in entire harmony with what is shown by market and production data on Peru's principal exports. The decline in the price of sugar and petroleum more or less offsets increase in production of petroleum and other minor exports. Copper has increased in volume but fallen in price up to last December. Sugar remains low, so low that most Peruvian producers are losing money. Cotton is steady and the backbone of Peruvian prosperity. The picture is not discouraging. It is one showing that prosperity is holding its own and perhaps advancing slowly.

(b) Bank figures show that the situation of the five years has remained more or less stationary. The percentage of gold reserve against total currency and deposits shows a slow downward trend. Loans have gone up. Deposits remained stationary. Nothing alarming or depressing here. Merely the same indication that Peruvian prosperity is just holding its own.

Aside from the above data and conclusions, it should be stated here that collections are slow; the value of real estate in Lima and the principal cities is steadily declining; rural or agricultural properties are falling in value; most of the banks are heavily loaded up with frozen assets; the second largest bank in the country has constantly some \$3,000,000 to \$4,000,000 borrowed from the reserve bank which it never substantially reduces; a large percentage of the mortgage bank loan payments are made with delays; the Italian Bank having the largest mortgage bank section told me that over 60 per cent of their payments came in late. These are data which can only be picked up by intimate study. The situation is not alarming, if credit abuses are not continued. The present credit situation may be pronounced unhealthy. In Chile the banks do not keep constantly large rediscounts with the Reserve Bank. It is considered unsound there. The credit situation there is much healthier than in Peru. In Bolivia it is worse.

5. The most significant feature of the situation seems to me the present program, policies, and tendencies in fiscal administration. It should never be said of any country that it can not carry its present debt, that is, if it is a reasonable amount, and the present Peruvian debt seems not unreasonably high, although dangerous by reason of the large percentage of foreign debt. It may be said, however, that a government can not spend like a drunken sailor without plan or program or a sound budget procedure and continue to raise the margin of excess of expenditures over revenues as Peru has done in the past five years. What are the facts on present practices?

Peru has a sound organic budget law (1922) which it has never followed. Peru neither budgets its expenditures to be covered by borrowings in the general budget as the organic law requires or in an extraordinary budget, as many fiscal systems prescribe, that of Chile for instance. There is neither provision nor planning nor budgeting of such expenditures nor is there any subsequent control such as all sound fiscal systems, as that of Peru, prescribes.

The Government makes a budget which it has closed every year but one since 1923 with a deficit. It then spends as much more as it pleases outside of that budget without plan or order.

The Government submitted to the bankers in connection with the national loan a program calling for the expenditures of \$9,000,000 a year. In the published accounting of expenditures under that program the Government acknowledged spending over \$1,000,000 more than the \$9,000,000.

The Government agreed to begin no new works in addition to those listed in this program. The Government began any number of new works in violation of this agreement (Palace of Justice, Pisco-Castrovirreina Railway, and many road jobs).

We may now say, pending the publication of the Cuenta for 1928:

We generously assume the Government closes the 1928 Budget without a deficit, something it has not achieved since 1924. This is volume 1 of expenditure.

The Government, we know from published statements, has spent over \$10,000,000 under the program of Law 5930 and has also spent more than the originally estimated amount on Callao Harbor. This is volume 2.

The Government has spent we don't know yet how much outside of the above volumes 1 and 2 on the Palace of Justice, the Pisco Railway, and new public works. This is volume 3. We shall know its exact amount when the Cuenta comes out.

The Government has incurred during the past year a volume of indebtednesses to contractors for services, merchants and others for goods, engineers and employees for services delivered in 1928 and 1929, which is outstanding in open book claims, still unliquidated and not in any one of the above three volumes. I know that the amount of such indebtednesses on Mr. Sutton's one job on November 22, 1928, was as follows: 35,002 pounds, 61,912 pounds, 33,041 pounds; total, 134,955 pounds, or \$536,000. That is to say, Mr. Sutton has spent this amount in excess of what he has received in cash or credit instruments from the Government. I have his balance sheet signed by his accountant for these figures. I learned from examination of the balance sheet of the Recuqy Railroad job that last November the Government owed the contractors 70,000 pounds on this work. The laborers had not been paid for three months. They were being given chitz with which to buy food and necessities. I was told by the accountant on the Santa Ana Railway that the Government owed some 60,000 pounds there in January. I understand that the Government is likewise in arrears on every one of its five or six railway projects under way and on its innumerable other projects. The amount of expenditures so unliquidated and still pending for 1928 will, in my belief, run into millions of dollars.

Obviously these expenditures are made possible only by recourse to bank credit, the contractors and suppliers having to borrow from the local banks on their prospects of being ultimately paid by the Government. It is, I take it, unnecessary to advance arguments to prove that such a system of financing can not be carried on indefinitely without a crash. It has been resorted to in war time when it was, doubtless, necessary to carry on the war. With what results for banking and currency wherever employed, we all know. Getting away from such practices has been the course of financial rehabilitation of all the European belligerents, not excluding Great Britain. It is difficult for me to see how it can be thought that the Peruvian Government following these practices can be expected to prove an exception to the general rule and prove a good credit risk. As long as new foreign loans can be obtained to pay off these debts, every so often, the Government can carry on. It must be remembered, however, that the Government must each year, under this procedure, not only finance with foreign capital, at least partially, the current excess of expenditures over revenues of the year, but also take up a substantial volume of the accumulated debts of the past year or years; that is, of course, assuming as we have done above that internal credit can not provide with loans as in France for the liquidation of these deficits. Now, we have seen that current expenditures in excess of revenues are running way above the avails of loans; hence there is and will be no foreign capital to take up these debts.

I have found there the view that this evil is self-remedying, since the Government must come to the end of its credit rope, whereupon contractors and furnishers will stop delivering on credit. The answer to this is quite simple. The failure of the Government to provide for some satisfactory settlement of these claims would put the Government in bankruptcy forthwith, which is, of course, only a figure of speech, but it would also put the unpaid creditors and their bankers in a serious situation. I have also found the view here that this does not much matter to the foreign bondholders, because the Caja would still function and the loan coverage still be adequate. With this view I

entirely differ. I do not believe that the insolvency of the Peruvian Government vis-a-vis local creditors for the public works, for which incidentally the national loan was supposed to pay, can be a matter of indifference to the bondholders. I hold that the Peruvian Government must maintain internal solvency to continue the service on its present foreign debt. I should not say this if Peru had only one or two small foreign loans specifically secured by pledged revenues. I should say in such a case that internal insolvency must seriously jeopardize the foreign loan service, but not necessarily interrupt it. I do maintain, however, that a government in Peru's situation must maintain internal solvency in order to keep up the service of its present foreign debt. I further maintain that in order to maintain internal solvency the Government must make some provision to take up a substantial part of the debts it owes with revenue or with the proceeds of foreign loans or of internal loans. I believe that it is impossible to float an internal loan. I regard it impossible to make the provisions necessary for continued internal solvency and at the same time continue the excess of expenditures over revenues at the present rate. My constructive recommendations in this regard have already been submitted.

APRIL 16, 1929.

## MEMORANDUM CHILE AND PERU DEFICITS

[Source, Bulletin No. 4, Oficina de Presupuestos Chile, February, 1928]

In 1925 the Chilean Government had a deficit of.....		Cp. 114, 600, 000
In 1926 ordinary expenditures were.....	Cp. 972, 000, 000	
Ordinary revenues were.....	755, 000, 000	
Deficit.....		217, 000, 000

		361, 600, 000
In 1927 ordinary revenues.....	924, 700, 000	
Ordinary expenditures.....	918, 600, 000	
Surplus.....		6, 100, 000

Accumulated deficit.....		355, 500, 000
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During 1926 and 1927 the Kissel Kinnicut loan was contracted for \$70,000,000. This was earmarked as follows:

Redemption internal bonds.....		In sterling £1, 989, 000
Cancellation of Cp.200,000,000 of above-mentioned deficit of 355,500,000.....		5, 000, 000
Roads.....		125, 000
Charity.....		400, 000
Sanitation.....		187, 500
Port works.....		5, 700, 000
		13, 401, 500

Later, Cp.160,000,000 was taken from port works and applied to extinguishing the Cp.155,000,000 deficit. In this way the floating debt was wiped out. As Chile closed the ordinary budget of 1928 with a surplus, the floating debt remains almost zero to-day, and when I was in Chile the controller showed me that he had some \$3,000,000 cash on hand that day, as I recall. The Government is living within its ordinary and extraordinary budgets, thanks to the efficient fiscal administration of the Government. Perhaps it is spending too much. Perhaps many expenditures in the extraordinary budget should be covered by revenues; only the future can tell. It may be that Chile can carry the burden all right. But, at least, expenditures are all covered by planned resources.

Now, the following conclusions seem warranted:

1. Chile was, during 1925 and 1926, headed full speed ahead for bankruptcy. All Chileans admit this.
2. Chile abruptly changed this course under the new military dictatorship and has, in 1927 and 1928, conducted its finances according to a seemingly sound plan.

3. The larger part of the \$70,000,000 loan went to clear up the internal debt and another part went to carry on the program of the extraordinary budget. The application of the proceeds of this loan left Chilean finances in a technically sound position. No unfunded debt.

4. The \$70,000,000 loan went largely for so-called unproductive purposes, but it has turned out so far to be not an unsound loan. Why? Because the Chilean financial house has been put and for two years up to date kept in order. Whether Chile stays solvent will depend on the continuance of a sound administration.

The loan was sound in so far as it facilitated the liquidation of an unsound situation and the initiation of a new and sound period of fiscal administration. Its ultimate soundness depends on the successful achievement of the program undertaken. It will be easier for Chile to achieve this if the money is spent usefully, but achievement depends in last analysis mostly on Chilean will and administrative capacity.

5. If Chile found it necessary, like every European country that has come back to normality after the war, to fund its floating debt, balance its budget, and budget all its expenditures, is there any reason to suppose that Peru can run on an exactly contrary course, increasing its floating debt, and what is worse, unliquidated debts, by spending yearly more than revenues and the cash avails of loans, and long remain solvent even with a collection agency contract and the funded debt service three times covered by revenues? I think not.

There are two points to consider. First, the public works were extravagantly conducted. They cost, on the whole, about twice as much as they were worth. The second point is that they were not productive. Beautiful paved streets and beautiful public buildings are very nice to look at, but they do not furnish the money income to pay the service of the debts.

Senator SHORTRIDGE. We do the same thing, do we not?

Mr. DENNIS. Oh, yes; and some of our States go into bankruptcy, too.

Senator COUZENS. Which ones?

Mr. DENNIS. The main point is that we are richer than they are. The Latin Americans are very poor. They can not afford those things. We can afford them, and then, we borrow the money from ourselves. It makes a big difference.

The CHAIRMAN. Was this letter written in opposition to a proposed loan to Peru?

Mr. DENNIS. This was a summary of the general analysis I had made of the situation. I was in constant conflict—

The CHAIRMAN. For what purpose?

Mr. DENNIS. I had been asked for my opinion.

The CHAIRMAN. By your firm?

Mr. DENNIS. By my firm.

The CHAIRMAN. With a view of deciding whether a loan would be safe or not?

Mr. DENNIS. Well, it happened this way, Senator. When I went down there in 1928, they were contemplating the second loan. I took the very strong position that it was not sound, and I immediately became involved in a long debate, that went on as long as I stayed with the firm, and I was constantly called upon to substantiate my conclusions. That was what I did, in very large part. They wanted to convince me, as well as to convince themselves, that the loans were sound, and I believed they thought they were. They believed it themselves. It was a matter of difference of opinion, you see. They

took one view, and I took another, and we were constantly engaged in argument—when I was called back to New York, I had several long conferences with the partners and they said that I was pessimistic, and that these things would work themselves out. I took the position that in the face of the statistics of commerce, production and trade of the country, the government could not go on borrowing at that rate and remain solvent, and I undertook to prove it by various analyses such as I have here.

I refer to this only so that you will understand that these were not just snap judgments of mine, but they were based upon analyses that I made of the situation at the time.

The CHAIRMAN. Your judgment was better than theirs.

Mr. DENNIS. Well, apparently, as events have turned out. I think it is not so much a matter of judgment, as it is a matter of taking a disinterested view of the indications of trade and production. With regard to our own credit situation, I think all bankers will agree that we unduly expanded credit in this country in the period from 1927 to 1929, and that the sound procedure, as has been pointed out, is to keep your expansion of credit in relation with your expansion of production. Whenever a country sets out to expand credit in this way, and whenever production is expanding very slowly, the country is bound to go bankrupt. It is self-evident.

The CHAIRMAN. That applies to individuals, counties, States, cities, or Governments.

Mr. DENNIS. Anywhere. The principles I am exposing here are not unique nor peculiar to Peru. They are really mathematical principles of credit. Peru's production increased 17 per cent in 10 years. Its debts increased 283 per cent. That is, the production increased from 100 to 117, and the debts from 100 to 383. That is per se, according to my school of thought, unsound. You can not expand credit at that rate, unless, of course, the money is being used to create properties which will produce the income; it was self-evident—you only needed to get off the boat and take one look around—that the expenditures in Peru would not produce income. Because, when you see cement streets through waste places, you know that they are not going to produce money income. It makes motor-ing pleasant, and life more agreeable, if you can afford it, but it does not produce income.

Senator JOHNSON. Was it a fact that any individual could observe that they were paving roads out through waste places?

Mr. DENNIS. Yes. You have two different roads from Lima to Callao. There is no earthly need for more than one. They were concrete roads, that cost two or three million dollars. One of them paid for itself. That was practically the only public work in Peru that I ever discovered that paid for itself—one cement road from Lima to Callao. That was a toll road. That was a justifiable expenditure. There was a need for that. The tolls paid for it. There was no need for the other road. But, in addition to that, they built all sorts of roads that were not productive in that sense. Many of these things were expenditures that I should approve of, if the people could afford them.

Senator SHORTBRIDGE. Do you think they were moved by a desire to give employment to their labor, in the building of public works, roads, and so forth?

Mr. DENNIS. President Leguia was a visionary man who wanted to create as much as he could to leave behind him as a monument. He thought it was good for his country, and I dare say those public works were desirable things. You never can have too good public works for the people to enjoy, provided they can pay for them.

Senator SHORTRIDGE. You know, we are contemplating spending money in the building of roads, highways, and so forth, merely in order to give employment to the unemployed, looking forward, perhaps, into the future to have the investment considered proper, from a future standpoint, and a wise investment from the standpoint of public works.

Mr. DENNIS. I sympathize with what we are doing, but there, I take it, our problem is primarily to find work for the unemployed, and we might just as well give them money for building anything as support them in idleness. But in Peru you did not have that unemployment situation, because the people were very happily situated on the land. These abnormal public works expenditures did a great harm, because they drew hundreds of thousands of Indians from the mountains, where they were living quietly and happily in a very primitive state. It drew those people into the cities to work at 75 cents or a dollar a day. Then, when the work ceased, it threw that floating population on the cities, without resources to return to their natives places and resume their former mode of life. That is a very unfortunate change.

Our public works have an entirely different justification. There was no need there to spend money for public works to solve an unemployment problem, and I would say, quite aside from that consideration, that a nation has no right to borrow money from foreigners which it can not pay back, in order to solve its unemployment problem. That would be my view of that matter.

Senator COUZENS. After that analysis, was there any loan made?

Mr. DENNIS. This was the summary. My points were presented in 1928. Then the bankers sent down a partner, who negotiated the \$35,000,000 loan of 1928. I would say, in fairness, however, that in his negotiations with the President, he took into consideration the points I raised, but the bankers did not obtain the balancing of the budget, or the return to the gold standard. They made the loan, nevertheless. They took into consideration the facts, but they did nothing effective to correct the evils I pointed out. Of course, they were in a position that if they had not made the loan, someone else would. That was their general reasoning.

In this connection, I would say that before I went down to Peru, the president of the Reserve Bank of Peru, Doctor Romero, and Mr. Larranaga, came up to New York, and told the bankers that they were lending far too much, and that they should at least cut their loans in half. That was in 1927, before they made their first loan. This was the opinion of all the conservative people down there. I was only expressing a very general opinion. But Peruvians were quite powerless—more or less—as we are in New York, against many things that occur. The President was a dictator, and he spent what he chose, and borrowed what he chose. The people had no way of checking it.

Senator REED. Your prophesy seems to have come true. Will you make up a new prophesy, as to what is going to happen to those loans now?

Mr. DENNIS. I think you only have to look to past history for the answer to that question. I should say that in time you will see them scale down the debts in agreements with the bondholders, who will gladly accept some consideration like 5 or 10 cents on the dollar. The loans are selling now around 7 or 8. I should say that in another two or three years the bondholders would be very happy to make an agreement with the government to call it square for a consideration worth about 10 cents on the dollar. That is the course of procedure in the past cases of similar nature.

Senator REED. From the standpoint of Peru, they have their public work at a very low cost, have they not?

Mr. DENNIS. If you take into consideration the experiences they have been through, I think they paid rather dearly for their public works. I do not think anyone ever gets something for nothing. I think Peruvians have to pay for what they got, as well as our unfortunate investors, who bought the securities. I think Peruvians could have got their public works much cheaper by not borrowing, by working a little harder and paying higher taxes. Any country pays dearly for a national bankruptcy. Bankruptcy hurts the country for a long time.

Back in 1870 Peru did exactly the same thing. They increased the foreign debt from forty-one million in 1869 to one hundred and seventy-one million in 1872. In three years they increased their debt one hundred and thirty million. They went in default in 1875, three years afterwards.

In 1890 they made a debt settlement arrangement with their creditors. The debt and interest then aggregated two hundred and sixty-seven million. All the claims were canceled and they conceded the railroads and some other minor concessions, which represented probably less than 10 per cent of the amount canceled—much less than 10 per cent of the amount canceled. The result of the bankruptcy is very unfortunate for a country, so I should say they really do not get something for nothing. They pay for it.

Senator SHORTRIDGE. About what is their population?

Mr. DENNIS. Six million. This situation I have discussed would apply to practically all the South American countries in varying degrees.

Senator REED. Except Venezuela.

Mr. DENNIS. They have not borrowed, and the President has not been thrown out, either. It is the only country where the President has stayed in power. I think it is largely due to the fact that he has not borrowed.

Senator SHORTRIDGE. Has that country a reserve banking system somewhat like ours?

Mr. DENNIS. Peru?

Senator SHORTRIDGE. Yes.

Mr. DENNIS. It has a reserve bank. It has no member banks. It has no system. It has just one central bank. It is modeled on the principles of our bank, but, of course, it has to be adjusted to the peculiar conditions of the country, which are different from ours.

Senator JOHNSON. What was the country where you said the President still held office?

Mr. DENNIS. In Venezuela—General Gomez. He is the only one that has survived, practically.

Senator JOHNSON. Is it not a fact that those like the President of Peru, who kept borrowing, were able to maintain themselves in their dictatorships by virtue of the borrowings?

Mr. DENNIS. Yes; they thought so. I think they made a mistake, but they thought to strengthen their hold on the people by borrowing. I think if they had not borrowed, and if they had balanced their budgets, they would have done much better, but they thought to gain popularity by spending borrowed money.

Senator JOHNSON. When you were in Peru there was practically an absolute dictatorship, was there not?

Mr. DENNIS. Quite absolute; yes.

Senator JOHNSON. Can you state whether or not there was competition among international bankers of America for the loans that were floated?

Mr. DENNIS. For the smaller loans there was some; but after the coalition of the National City Bank and J. & W. Seligman undertook the large loans, I do not think any other banks made overtures to the Government. Probably some indicated to the President that in case J. & W. Seligman and the National City Bank withdrew they would be disposed to enter the field, but, once these large firms got into the picture, I do not think there was much competition. There was competition over the earlier and smaller loans.

Senator JOHNSON. Had you finished the statement you were making?

Mr. DENNIS. Yes.

Senator JOHNSON. At any rate, to sum up the situation, we may take it that you advised against the making of additional loans?

Mr. DENNIS. Oh, yes.

Senator JOHNSON. And that your advice was not accepted?

Mr. DENNIS. Yes. Of course, I expressed my opinion and said that these things have to be done, and they simply took a different view of the matter. That is all one can say about it.

Senator SHORTRIDGE. Would the same situation apply to Colombia?

Mr. DENNIS. The situation was almost identical.

Senator SHORTRIDGE. And practically all the Latin-American countries?

Mr. DENNIS. Yes.

Senator SHORTRIDGE. In Central and South America.

Mr. DENNIS. Yes. Those countries had plenty of money after the war. They found a readiness on the part of New York bankers to lend money, and the politicians thought that was rather a pleasant way of conducting the government. Every one liked it, because, of course, it gave money to the country for additional spending. Moreover it was rationalized and justified, both there and here, on the grounds that these expenditures were productive, and that the borrowing country was increasing its wealth.

I think an important factor in connection with this, of course, is the mistaken idea on which the bankers proceeded. I do not think

the bankers recognized what they were doing. I do not think there was any intent on their part to do wrong. They simply proceeded on false economic and financial principles, principles which, of course, have been proved false again and again in the world's history.

There was one thing I do think was particularly wrong, and that is that before some of these weaker Latin-American loans were floated the bankers would "rig the market" for a new issue of bonds. That is to say, they would bid up the issues of that country on the New York Stock Exchange three or four points, and would sustain an artificial market.

Senator SHORTRIDGE. That was wrong?

Mr. DENNIS. Yes; that is wrong. That has been denounced in England, from the Queen's Bench, in *Scott v. Brown*, as "rigging the market," and as a legal fraud in England. I do not think it is a legal fraud in America. The Martin Act should be amended so as to make it a legal fraud. It would be an equitable fraud, I should say.

Senator SHORTRIDGE. Morally.

Mr. DENNIS. Yes; morally it would be, because you create a false market appraisal of the credit, and then afterwards you deduct the expenses of those operations from the proceeds of the loan.

There was a certain amount of bad faith in connection with that. Then there was a certain amount of bad faith in connection with the representations as to the gold standard. They said the currency was being stabilized; but, of course, what it really amounted to was that the currency was being pegged by the proceeds of the loan. They maintained the stability of the currency with foreign exchange, by having the Reserve Bank of Peru buy constantly at one rate, and sell at nearly the same rate.

The reserve bank was only able to maintain that currency stability with proceeds derived from loans. The stability of the currency was not maintained by the operation of the gold standard as we have it in America, where, when exchange goes above a certain point we export gold, and when exchange goes below a certain point we import gold. There is a free gold market. In South America they did not maintain a free gold market. They gave investors, however, the impression that the currency was on the gold standard, by the somewhat artful wording of their circulars. They said "the currency is being stabilized." The currency was artificially being pegged, just as British sterling was pegged here during the war.

Senator SHORTRIDGE. You used the phrase "rigging the market." How did they do that? How do they manipulate it to give a false value?

Mr. DENNIS. You simply give orders to a broker to buy bonds. Suppose Peruvian bonds of a certain issue are selling at 84. You have a man to manage your syndicate, your market operations. He will buy at 86, 87, 88, 89, and 90. He will accumulate these bonds. These are not "washed" sales. Of course, "washed" sales are strictly forbidden by the New York law, and no one would make a "washed" sale, because it is a misdemeanor. These are genuine purchases. There is a genuine change of ownership. The man operating for the banker buys these bonds at higher prices until he gets them up to 91 or 92.

Senator SHORTRIDGE. He gives more for them than he can buy them for?

Mr. DENNIS. Yes. The quotation to-day might be 88. He will bid 89, and then he will buy to-morrow at 90, all that are offered at 90. Of course, the minute you put in an order to buy, you raise the price, as you bid a little above the market price. If you start buying at the market price, the market price goes up.

Senator SHORTRIDGE. Why do they do that?

Mr. DENNIS. So as to create a quotation. The next day the paper comes out and shows those bonds were sold at 89, and then 90. The syndicate operator keeps an order with the broker to purchase those bonds at 91. Of course, no one sells any bonds at 90, because everyone can sell the bonds to the syndicate operator at 91. He keeps the price of the bonds at that level during the duration of the syndicate. He acquires a "long" position in those bonds. He may acquire two or three hundred thousand, or a million dollars' worth of those bonds. Then, when the syndicate is closed, and they pull the plug out, he proceeds to sell those bonds slowly. In so doing he may take a loss on these syndicate operations of \$200,000 or \$300,000. That will be debited against the loan, as expenses of the loan; but during the period of maintaining that fictitious price the bonds are offered to new investors at the offering price. You can not bring out a 6 per cent Peru bond at 91 when other issues of 6 per cent Peruvian bonds are selling at 88. A dealer goes to his clients and says, "Will you buy Peruvian bonds at 91?" The client says, "I can buy them at 88." The bankers have to bring all Peruvian bonds of that class up to 91 in order to offer a new issue at 91. Then, after the bankers have marketed the new issue, they pull the plug and let the bonds find their proper level in a free and open market.

That process is not called "rigging the market" in America, but it has been called "rigging the market" by the Queen's Bench in London.

Senator JOHNSON. That is simply a little financial finesse.

Mr. DENNIS. I think it is wrong, myself.

Senator JOHNSON. What I am curious about is whether or not that is a general practice in reference to these foreign securities.

Mr. DENNIS. It has been done quite often. It was done in the Peruvian bonds, and it was done in some others. It is a current practice. They call it "dressing up the market." That is what it is called.

Senator JOHNSON. For the rest of us.

Mr. DENNIS. Yes. Here is what the Queen's Bench said on this particular thing, in *Scott v. Brown*, 2 Queen's Bench (1892), 724:

If persons, for their own purposes of speculation, create an artificial price in the market by transactions which are not real, but are made for the purpose of inducing the public to take shares, they are guilty of as gross a fraud as has ever been committed and of a fraud which can be brought home to them in a criminal court.

In this case the correspondence put in evidence by the plaintiff in support of the claim he made at the trial shows conclusively that the sole object of the plaintiff in ordering shares to be bought for him at a premium was to impose upon and deceive the public by leading the public to suppose that there were buyers of such shares at a premium on the stock exchange, when, in fact there were none but himself. The plaintiff's purchase was an actual purchase and not a sham purchase (washed sale); that is true, but it is also true that the sole object of the purchase was to cheat and mislead the public

\* \* \* I am quite aware that what the plaintiff has done is very commonly done; it is done every day. But this is immaterial. Picking pockets and various forms of cheating are common enough and are nevertheless illegal.

Senator JOHNSON. This peculiar process you have just described, by which the "window dressing" is prepared for the gullible public—is that a matter of common knowledge? Is it a matter of common knowledge that that is frequently done in respect to these foreign securities?

Mr. DENNIS. Oh, yes.

Senator JOHNSON. There is no question on that score at all?

Mr. DENNIS. No, sir.

Senator JOHNSON. With respect to the loans that you saw, that were made in Peru, which were apparently loans for public improvements; did you observe tremendous waste in those loans?

Mr. DENNIS. Yes.

Senator JOHNSON. Do you know whether or not the loans went hand in hand, in Latin America, frequently with concessions or contracts that were accorded to particular favored firms?

Mr. DENNIS. I have not any personal knowledge of that, sir. In Peru I knew of no bankers in Peru who tied up contracts with loans. The firm I was with did not. I have heard that it has been done in other countries, but I have not first-hand knowledge of that.

Senator JOHNSON. Do you know whether or not the Foundation Co. took any part in the managing or the arranging of the Peruvian loans?

Mr. DENNIS. In one of the earlier ones they did, I think, but not in the national loan, the \$85,000,000 series.

Senator JOHNSON. What do you mean by one of the earlier ones—what kind?

Senator SHORTRIDGE. What is the Foundation Co.?

Senator JOHNSON. My colleague asks what the Foundation Co. is.

Mr. DENNIS. That is a construction company, of the city of New York. Their stock is listed on the exchange. They do all sorts of construction. They started building foundations, and thus they probably got their name. But they have done all sorts of construction work.

Senator JOHNSON. Can you tell me two or three of the individuals who are most interested in it, or who have the largest interest in it?

Mr. DENNIS. At the time I was there, Mr. Hubbard was in charge of their operations. I do not know where he is now. The Foundation Co., of course, is a corporation in New York. I do not know who their president is at present.

The sanitation loan of 1924 and the sanitation loan of 1926 were loans that the Foundation Co. was connected with, I think.

Senator JOHNSON. Did I ask you whether you knew anything of the Chilean nitrate situation?

Mr. DENNIS. I do not recall that you did, Senator.

Senator JOHNSON. Do you?

Mr. DENNIS. Not first-hand information; no, sir.

Senator JOHNSON. Did you make any investigation to determine anything concerning the concessions in relation to nitrates there?

Mr. DENNIS. I did not; not directly. I was interested only in the public finance and budget situation. I did not go into that specific situation.

Senator JOHNSON. Generally speaking, would you say that the South American loans were of the unwise character that you have described with respect to the Peruvian loans?

Mr. DENNIS. I should say those of Bolivia, Peru, Chile, and Colombia undoubtedly were. The Argentine, of course, is a country that has borrowed on its credit; and there was, according to all that one heard and could see, a great deal of waste in the expenditure of public money. There was no need for the loans, except, of course, to enable the government to spend more than its revenues. The Argentine had plenty of gold. It has \$700,000,000 worth of gold, and could have supported any amount of credit expansion had the people been willing to buy the bonds of their own country out of savings. The Argentines could have bought their own bonds if they had wanted to. They had plenty of gold to expand bank credit and take up all the bonds of the Argentine that might have been needed.

Senator JOHNSON. Do you know what the situation of the Argentine bonds is at present—or some of the States of the Argentine?

Mr. DENNIS. They have been down as low as 35. They are selling around 45 or 50.

Senator JOHNSON. Do you know anything about the bonds of some of the States of the Argentine?

Mr. DENNIS. I think one or two of them are in default.

Senator JOHNSON. Is there anything else, Mr. Dennis, concerning the loans that have been made, that you can state to this committee that would enable the committee to have a fuller picture of the situation?

Mr. DENNIS. I think there is this to be said, Senator. The war-debt situation created more or less the occasion for these unwise loans. Before the war the South American countries borrowed considerably in London. England had between four and five billions of dollars invested in Latin America, largely in Argentine railroads. They had quite a lot invested in Peru and various countries. The British loaned money from time to time to the South Americans to finance new works, and these loans were, in recent years—that is, between, say, 1890 and 1914, conservative. Had the war left no debts to be paid to the United States, European countries would have continued, presumably, to make loans to the South Americans and they would not have come to us. It so happened, after the war, that England and France, and the creditor countries of Europe, had to pay for a heavy surplus of imports from America. Where were they to get the necessary dollars? They got them very largely from South America and other fields in which they had invested capital. They drew their income from investments in Latin America in dollars, and those dollars they used to pay to the United States for an excess of imports from this country, and also on war-debt payments when those payments began to be made.

The CHAIRMAN. The war-debt payments did not bother them very much.

Mr. DENNIS. It is a triangular movement. I do not see how they could have balanced their payments without getting money from somewhere abroad. We loaned the money to Latin America and thus Europeans acquired dollars to pay us. Had Europeans been obliged to relend their income from South America they could not have given that money to us; so our loans really served to pay our

war debts. I think that may be considered the genesis of it all. Europe had to pay us on debit balances. Therefore, they collected from South America. We loaned money to South America, and received it back through a triangular movement.

Senator GEORGE. Were the South American loans from Europe liquidated following the war period?

Mr. DENNIS. No, sir. This is only the income I refer to.

Senator GEORGE. The loans themselves, due the European countries, were not liquidated?

Mr. DENNIS. No.

Senator GEORGE. They are still outstanding?

Mr. DENNIS. Very largely. A lot of these investments are not loans. The English have about two billions in Argentine railways. That is largely common-stock investment. Europeans own a lot of physical properties in South America. Englishmen own plantations in Brazil. Foreigners also derive profits from mercantile businesses in South America. Those profits formerly were not taken in money, but they were reinvested in the country. Since the war Europe has been taking the income on those investments in South America. The South Americans have been enabled to pay that income with the proceeds of new loans from New York, and a great deal more in addition. That is an interpretation of it.

Senator SHORTRIDGE. Were any of these loans floated in European countries?

Mr. DENNIS. Some of them; yes. In this Peruvian loan there was \$10,000,000, but that was used entirely for refunding. That, I think, was a most unfortunate operation, because Peru refunded 5 per cent and 5½ per cent bonds with 6 per cent bonds, and the money really cost the government 7 per cent, because Peru sold the 6 per cent bonds for 86, and took the money obtained at 86 to pay off bonds at 100.

This \$85,000,000 loan to Peru was a ruinous operation that needlessly increased the net debt about \$10,000,000.

Senator SHORTRIDGE. Was any of the money expended in building a road up to the City of Refuge?

Mr. DENNIS. I do not believe they had such a city. They did not get to it in time.

Senator JOHNSON. Do you know whether or not any of your reports ever got to the Department of Commerce or to the Department of State?

Mr. DENNIS. I should not suppose so.

Senator JOHNSON. They were made simply to your firm?

Mr. DENNIS. Oh, yes.

Senator JOHNSON. Are you familiar at all with the contracts that are made for the sales of bonds by international bankers with the Latin American countries?

Mr. DENNIS. Somewhat. I have seen a number of them.

Senator JOHNSON. What I am driving at is this. Is there any provision in these bonds by which any part of the selling price or any part of the commission is divided between the banker and the government?

Mr. DENNIS. No; I think not. There are occasional commissions paid. But I do not quite get your question, Senator. Perhaps if you will explain it a little more in detail—

Senator JOHNSON. Here is a bond that is purchased ostensibly at 86, we will say, from a South American country. That is to be sold on the market at 90. There is a provision that if it shall be sold for a greater sum or amount, it shall be divided between either the government or its officials and the bankers. Do you know anything about that?

Mr. DENNIS. Yes; but that, I think, is a quite proper provision. Sometimes it is put in the bond purchase contract. The bonds will be bought at 86 and the bond purchase contract will stipulate that if the bankers are able to place the issue at a figure above 91 or 92, the difference between 92 and the figure at which it is placed shall be shared between the bankers and the government. That is sometimes done; yes.

Senator JOHNSON. I have been curiously wondering whether that would constitute a partnership that would enable some particular bondholder to attempt to get some relief from the banker. I am not clear upon that subject at all, I confess. But that sometimes is done in some of these contracts?

Mr. DENNIS. Yes. I take it, it is a fair provision for the government. The government sometimes will say to the bankers, "You say you can not give us but 86 for these bonds. But you ought to be able to sell them at 95." The bankers say, "We are quite sure we can not, but if we can sell them for more than 91 or 92 we will be glad to share the difference with you." It really means nothing, because the bankers can rarely sell the bonds above the price they reckon on.

Senator SHORTRIDGE. But the difference, using that word, goes to the government as such?

Mr. DENNIS. Yes, Senator.

Senator SHORTRIDGE. Not to some subordinate.

Mr. DENNIS. No. That is quite a legitimate provision. That is credited to the government and paid to the government; yes. Whatever split the government gets of that excess amount is divided between the government and the bankers, and it is legitimately credited to the government.

Senator JOHNSON. Have you ever made any study of the Colombian situation?

Mr. DENNIS. From published statistics, somewhat; yes. I did not make quite as intimate a study as I did in Peru, of course.

Senator JOHNSON. When did you make that study?

Mr. DENNIS. About the time I was in Peru. That was from reports that I got. I did not go to Colombia. I studied all the available statistics, and even some of the memoranda from the Minister of Finance. I studied some of the reports there. The bankers had various connections with Colombia and I studied some of the reports.

Senator JOHNSON. Within the past two years?

Mr. DENNIS. In the past two years? No; I have not.

Senator JOHNSON. Is there anything else that you desire to say?

Senator SHORTRIDGE. Did you make any inquiry as to what Colombia did with the \$25,000,000 that we paid her?

Mr. DENNIS. Only such information as I gathered from an analysis of their accounts. I take it the money went largely to public works, railroads, and things like that.

Senator SHORTRIDGE. You recall the transaction which resulted in our paying her \$25,000,000?

Mr. DENNIS. Yes. \$5,000,000 a year of it was paid.

Senator SHORTRIDGE. Over a period of five years?

Mr. DENNIS. Yes, sir.

Senator SHORTRIDGE. That is all.

The Chairman. If that is all, you may be excused, Mr. Dennis.

(Witness excused.)

**TESTIMONY OF OLIVER C. TOWNSEND, ARMY AND NAVY CLUB,  
WASHINGTON, D. C.**

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Please state your full name for the record.

Mr. TOWNSEND. Oliver C. Townsend.

The CHAIRMAN. Where do you reside?

Mr. TOWNSEND. At Washington.

The CHAIRMAN. What is your business?

Mr. TOWNSEND. I have not any. I have been in the hospital for some little time, sir.

The CHAIRMAN. What was your business?

Mr. TOWNSEND. I was a commercial attaché at Lima, Peru, sir.

Senator JOHNSON. What is your residence?

Mr. TOWNSEND. Army and Navy Club.

Senator JOHNSON. In Washington?

Mr. TOWNSEND. Yes, sir.

Senator JOHNSON. Have you in the past held any official position under the United States Government?

Mr. TOWNSEND. Yes, sir; I have had two.

Senator JOHNSON. Will you state what they were, please?

Mr. TOWNSEND. The last one, as commercial attaché at Lima, Peru, December, 1926, until December, 1929.

Senator JOHNSON. From December, 1926, to December, 1929, you were the commercial attaché at Lima, Peru?

Mr. TOWNSEND. Yes, sir.

Senator JOHNSON. Under the Department of Commerce?

Mr. TOWNSEND. Yes, sir.

Senator JOHNSON. Did you during the period that you occupied that official position make reports of the financial situation in Peru?

Mr. TOWNSEND. Yes, sir.

Senator JOHNSON. To whom were those reports made, if you please?

Mr. TOWNSEND. They were addressed to the Department of Commerce, copies of certain of them being sent to the Department of State. Our monthly reports of financial conditions were sent both to the Department of Commerce and to the embassy in Lima for transmission to the Department of State at the discretion of the ambassador.

Senator JOHNSON. Have you any of the original notes that you made during the time that you were in the Government employment as commercial attaché in Lima, Peru?

Mr. TOWNSEND. Yes, sir; quite a number of them.

Senator JOHNSON. Have you them with you?

Mr. TOWNSEND. No, sir; I have not.

Senator JOHNSON. I am handing you a rather descriptive and interesting article. What is the date of that, please?

Mr. TOWNSEND. February 10, 1927.

Senator JOHNSON. Will you state whether or not you wrote at that time that particular article?

Mr. TOWNSEND. Yes, sir. This was written immediately following the happenings with which it deals?

Senator JOHNSON. To whom did you deliver it?

Mr. TOWNSEND. I gave a copy of it to the ambassador, who was then Ambassador Poindexter.

Senator JOHNSON. For transmission to the Department of State?

Mr. TOWNSEND. This was never sent to the Department of Commerce, I will say in passing, but I delivered it to Ambassador Poindexter only because we had both been present at this dinner and I thought it might be of service to him in remembering what had happened. He was at liberty, of course, to do what he liked with it, to send it to the Department of State or not.

Senator JOHNSON. Did you during this period report both to the Department of Commerce and the Department of State the situation so far as the finances of Peru were concerned, as you investigated them and as you understood them?

Mr. TOWNSEND. Yes, sir. That was a part of our weekly or monthly duty.

Senator JOHNSON. Do you know whether or not you advised against the Peruvian loans?

Mr. TOWNSEND. It was not within my province to advise one way or the other, sir, but I constantly came as near warning them of their weakness as I felt I had a right to do.

Senator JOHNSON. Was any suggestion made to you by either department as to your reports?

Mr. TOWNSEND. I was quite severely reprimanded for my pessimism.

Senator JOHNSON. Reprimanded by what department or by whom?

Mr. TOWNSEND. The Department of Commerce.

Senator JOHNSON. Was anything said to you as to the kind of reports that you ought to render?

Mr. TOWNSEND. Yes. It was clearly stated that optimistic reports were what we needed.

Senator JOHNSON. I offer this memorandum made at the time, February 10, 1927, describing more or less the situation obtaining in Peru, relating particularly to a dinner that was given at that time. [Reading:]

LIMA, PERU, February 10, 1927.

#### PERUVIAN NOTES—OFFICIAL NEGOTIATIONS

Tuesday night's dinner, given at the Hotel Bolivar by S. A. MacGinniss to fifty-odd guests, was a fair sample of what the local society folk are treated to at rather close intervals, namely, entertainment by promoters seeking favors of one sort or another from the Government.

Our host, who was Minister to Bolivia during the Wilson administration, is here with a big entertainment fund in the interest of (J. & W. Seligman), a New York banking firm, to bid on the securities shortly to be issued as a part of a big refunding loan.

The ex-minister is a big chap of about 50—ex-newspaper man—probably a lawyer by present profession—loud voiced—glad handed—just a little short

of being offensive in his jovial familiarity. One wonders how and why such a person is selected as a representative of important Latin American interests. A reasonable guess is that the bankers are led to believe that a person having intimate knowledge of what is represented to them as a delicate but well organized graft system, of which the President and high officials of the local government form a part—is the only agency through which they can accomplish their objective. It would be—I suspect—a revelation of gullibility to listen in on the confidential talks between the bankers and MacGinniss as he outlined to them his particularly unique fitness for the game of getting the best of all competitors on this job of securing the coveted securities to be resold to American investors.

"Being an ex-minister," I can hear him say, "I naturally have an already established entree to the President. This game of fixing presidents and officials of South American Republics is one in which I am expert. Sure, they all take graft—but it must be handed over in just the right way so that no evidence is left upon which a future scandal can be built—and it must be done with delicacy to avoid hurting the peculiar type of sensibility common to Latin American Presidents."

The bankers swallow it—line the promoters pocket with expensé money—agree to pay him a commission if he succeeds and pass unquestioned what sums he says he paid out to state officials who are of the system. If he brings home the contract he's a great negotiator—if he doesn't, he manufactures an alibi as specious and untrue as was his original representation. It's a great life—the promoters. However, his dinner was picturesque.

Senator SHORTRIDGE. Is the menu given?

Senator JOHNSON. That follows subsequently.

Then follow some remarks which, unless you wish them read, I do not care particularly to read, with regard to the parties who were present; and then his comment. This I read because the comments were given to the United States ambassador in Peru and, in the ordinary course of events, I assume were forwarded to the State Department:

The puzzle suggested to my mind is: Why has all this undignified scramble and promotion atmosphere become an accepted feature of the program for disposing of an issue of Government bonds? There is something about such scrambling that is highly appealing to Latin American officials—who encourage the intrigue and delays accompanying them—as a coy maiden flirts with a group of suitors—not in any spirit of indecision but for the long drawn out pleasure afforded by the game.

One would think that more satisfactory results might be achieved by the Government if it were itself to first fix the terms of its loan in accord with international usage, and call for bids for the issues of which it desired to dispose. Not only would it secure all of the advantages of competitive bidding—but it would conceivably save itself something of the time and annoyance which its representatives must suffer at the hands of the importunate salesmen promoters by whom it is beset, under the system now followed and the dignity of the proceedings would be vastly greater.

South American officials must realize that their methods of procedure in negotiating public contracts give color to the suspicion prevalent amongst foreigners—that graft really is an inherent factor in all official negotiations.

James Brown, a senior partner of Brown Bros. & Co.—New York and London—passing through on the "Laconia tour" Thursday, talked about bond buying in South America—in which he has had a large experience. His attitude is that the antiquated methods of negotiation take so much time and effort that his policy has become one of "Let George do it." On occasions his firm participates in such loans after they have been negotiated by other bankers—but he regards the actual negotiations as undignified and the "costs" which intertwine themselves into them as unnecessary burdens upon the borrowing peoples.

Mr. Brown further explained that in his opinion bankers should avoid the practice of offering such bonds to the general public because of the uncertainties of interest and principal payments. As investments they belong in the safe deposit boxes of the rich who make yearly investments in diversified

lists of securities from excess incomes. On the theory that even South American States do not go permanently bankrupt, such investors are secure in the ultimate recovery of both principal and interest, but the small investor who buys for income and is forced to take a loss when interest is defaulted should not be advised by bankers to buy such issues. The experience of English investors in Argentine bonds sponsored by Baring Bros. in 1890, was cited to illustrate the uncertainties from which investors for income should be protected by bankers.

Was it your duty while you were there to report to the Department of Commerce on the events that transpired, that were observed by you or discovered by you, in reference to the finances of that country?

Mr. TOWNSEND. Our obligation was to report such figures as we could get showing financial changes and movements and weekly business trends, to report once each week on the general situation as disclosed by our own visits to the bankers and merchants. The National City Bank was always a great help to us in giving local information. Monthly reports furnished by the reserve bank were always submitted; and anything that was reportable, that is, authoritatively so, that we could take from the newspapers or public documents was also reported.

I should like to state, if I am not taking up too much of your time, that in a country like Peru where there are no means of getting regular information—no newspapers that are permitted to report frequently and to publish freely what is going on—we are dependent almost entirely upon our contacts with business men and bankers and railway people, for any information at all. The local government reports such as we are expected to transmit are usually from four to six months late and are really of little or no use. In other words, it is a process of depending upon gossip and being able to analyze it and decide what is true and what is not.

Senator JOHNSON. You stated that some individual in the Department of Commerce suggested to you that your reports should be optimistic. Is that correct?

Mr. TOWNSEND. That is true, sir.

Senator JOHNSON. Have you that letter?

Mr. TOWNSEND. I have it in my possession because it happened to be one of the letters that was written to me personally.

Senator JOHNSON. Will you produce that letter for the record, please?

Mr. TOWNSEND. I shall be very glad to; yes.

Senator JOHNSON. From whom was that letter?

Mr. TOWNSEND. It was written by an assistant director.

Senator JOHNSON. What is his name?

Mr. TOWNSEND. His name is Thomas R. Taylor.

Senator JOHNSON. Approximate the date of it, please.

Mr. TOWNSEND. About this same time, within a few months of it, at any rate, early in 1927. I was then reporting adversely upon efforts to do business in Peru. That is, many of our exporters were desiring to form new connections there, and when my advice was sought I was advising them to keep out. We were already well established, and any increases in export trade or any new connections were visibly dangerous.

[Excerpt from record of January 11, 1932]

Senator JOHNSON. When Mr. Townsend was on the stand the other day I asked him to produce a letter which he said had been given to him or sent to him by the Commerce Department, wherein substantially he was asked to render optimistic reports or, rather, to take a more optimistic view of situations than that which apparently he had done. He has produced that letter. I have the original before me, but because it is an original that he desires to keep, I have had a copy made and compared, and that copy I offer for the record, with the original here which any one can examine if desired.

The CHAIRMAN. The copy will be inserted in the record at this point.

(The copy of letter referred to and submitted by Senator Johnson is here printed in full as follows:)

BUREAU OF FOREIGN AND DOMESTIC COMMERCE,  
Washington, May 20, 1927.

Mr. OLIVER C. TOWNSEND,  
*American Commercial Attaché, Lima, Peru.*

DEAR TOWNSEND: I feel that I understand exactly how you look upon reporting at length upon every question put up to you by the Bureau or by business houses. As an engineer you believe in economy of words. You told me after you had plowed through the files of reports from some offices that you thought a large part of the work was wasted effort and that you could say the same things in much less space, or perhaps leave them altogether unsaid.

I have some sympathy with your viewpoint for it is easy to agree that there is much duplication, unnecessary expansion of ideas, and unimportant reporting; but I don't know that I agree with your corrective measure. I'm sure you won't mind if I make some observations which are partly my own and partly those of commodity chiefs. I feel such a keen personal interest in you that I want to pass them on even though such action is outside my regular line of duties.

In the first place, I don't believe you fully realized when you left here the basic importance of the written word in the work of the bureau. The field man can pass on his ideas or knowledge verbally to only a comparatively few persons; the majority must be reached through written reports. Moreover, it is more important to reach the stay-at-home effectively than it is the traveler who already is fairly well informed. We in Washington and the export managers in Podunk and Oshkosh cannot get a true picture of Peru and its trade possibilities unless the commercial Attaché gives it to us fully in written form.

In the second place, it would appear to me that you, in the desire to be brief, give an impression of impatience or curtness, or even discourtesy, which is far from your real nature or intent. When a man writes down to Peru and waits three months for a reply he expects something big, and, therefore, the reply, especially a negative reply, should be couched in friendly and sympathetic terms.

Thirdly, it is my impression and that of some commodity chiefs, that you are over alarmed about a temporary trade condition that has slowed up business but should not preclude all consideration of American sales to Peru. In several trade letters you have taken the view that the inquirer should not even try to investigate Peruvian trade possibilities for months or even years. Aside from the fact that such an answer rarely satisfies because the inquirer is interested in potential as well as present possibilities, there is the more important consideration that the trade situation may take a sudden turn for the better and our discouraging attitude may not be warranted even by the time the reply reaches its destination.

Right in this connection, I should like to emphasize that the spirit of the bureau follows the spirit of American business, which is to make sales in spite of difficulties, or to find ways of doing seemingly impossible things. As officials we should be encouraging whenever possible and discouraging only in the last extremity. We are builders, promoters—even propagandists, although never to such an extent that we fail to recognize and point out difficulties.

Finally, I think that you may be tempted to overlook the small things or those that you personally are more or less uninterested in. It is surprising how many big pieces of export business have developed out of almost nothing by attention to details; how a casual observation by some commercial attaché has opened up a market for some American specialty or a close study of costs and prices has put American goods in a hitherto closed territory.

I know you will take these observations in the friendly spirit in which they are made. I am so much interested in our Latin American work and in you personally that I want to do anything I can to be helpful. I do hope you are interested rather than impatient when you lay this letter down.

Sincerely yours,

THOMAS R. TAYLOR,  
*Assistant Director.*

Senator JOHNSON. One portion of it I desire to call to the attention of this committee. This letter is signed by Thomas R. Taylor, assistant director of the Department of Commerce:

Right in this connection I should like to emphasize that the spirit of the bureau follows the spirit of American business, which is to make sales in spite of difficulties or to find ways of doing seemingly impossible things. As officials we should be encouraging wherever possible and discouraging only in the last extremity. We are builders, promoters, even propagandists, although never to such an extent that we fail to recognize and point out difficulties.

The CHAIRMAN. That had reference to trade in South America, did it not, Senator?

Senator JOHNSON. That had reference to Peru.

The CHAIRMAN. That is, general trade, not the selling of bonds?

Senator JOHNSON. No, sir.

Senator HARRISON. Who was the director at that time?

Mr. TOWNSEND. Doctor Klein.

Senator HARRISON. Dr. Julius Klein?

Mr. TOWNSEND. Yes, sir.

Senator HARRISON. Is Mr. Taylor still in the employ of the Department of Commerce in that capacity?

Mr. TOWNSEND. I think so.

Senator HARRISON. That is the department that has to do with foreign and domestic commerce?

Mr. TOWNSEND. Yes, sir.

Senator JOHNSON. You mean Doctor Klein was the director of that particular Bureau of Foreign and Domestic Commerce of the Department of Commerce?

Mr. TOWNSEND. Yes, sir. Under the present administration he is Assistant Secretary of Commerce, but still is the controlling head, I think, of that bureau.

Senator JOHNSON. Were you in any other of the countries of Latin America?

Mr. TOWNSEND. Not as a representative of the Department of Commerce. I have been familiar in greater or lesser degree with all of the countries of South America. During the war I had charge of establishing and maintaining a policing system for the Navy, inside the 3-mile limit of the coasts of Colombia. As a mining engineer I had been there a great deal before that, and that is the reason for my selection for that job. They were neutral countries and we had to have that sort of defense.

Senator JOHNSON. Did you consider the loans that were made by Peru and that were sold in this country as unwise or unsafe?

Mr. TOWNSEND. Absolutely.

Senator JOHNSON. Did your reports indicate that fact?

Mr. TOWNSEND. Yes, sir.

Senator JOHNSON. Did you file reports as well with the Secretary of State as with the Secretary of Commerce?

Mr. TOWNSEND. No, sir. Our weekly letters and our general financial reports were all that went through. They were more statistical in respect to financial reports, and a report that went through to the Department of Commerce from our office was accompanied by a copy which was sent to the ambassador for transmission to the Department of State.

Senator HARRISON. And you say that this letter that you received from Mr. Taylor, under Doctor Klein, called your attention to the fact that your reports were too optimistic?

Mr. TOWNSEND. Too pessimistic. If you will allow me to explain a little the atmosphere of that letter, it was a perfectly friendly letter written to warn me that my pessimism or my brevity in dealing with cases that, so far as I was concerned, were perfectly patent, perfectly logical, was not desired. This letter was written to me to explain why I should be a little more optimistic. In other words, I think any of you gentlemen who have heard Doctor Klein's repeated offerings on that subject will realize that he did not want a subordinate of his department stating anything that conflicted with his chronic optimism.

Senator SHORTRIDGE. And he characterized your letters as over-optimistic.

Mr. TOWNSEND. Yes, sir. Mr. Taylor being his accredited agent.

Senator SHORTRIDGE. Did he use that word?

Mr. TOWNSEND. This was not from Doctor Klein himself.

Senator SHORTRIDGE. No, but from the Mr. Taylor of whom you spoke?

Mr. TOWNSEND. I would not want to say definitely that there was any use of that particular word, but the idea was that the policy of the bureau was to bear very lightly on pessimistic reporting.

Senator SHORTRIDGE. Not to delay matters or to cumber up the record; but you used those two words, to this extent, that your reports or statements were pessimistic, and you added that they wanted you to make them optimistic. That was your conclusion?

Mr. TOWNSEND. That is the gist of it. Whether those words were used or not, I think no one could read the letter without realizing that.

Senator HARRISON. Are you still in the service?

Mr. TOWNSEND. No, sir.

Senator HARRISON. How long have you been out of the service?

Mr. TOWNSEND. I left at Peru in December of 1929.

Senator HARRISON. Did you resign?

Mr. TOWNSEND. Yes. We served by terms of enlistment; that is, three years; and in March of 1929 I advised the bureau that I had no wish to return to Peru, and they appointed another man to succeed me.

Senator HARRISON. There was no misunderstanding with the department?

Mr. TOWNSEND. There were no misunderstandings; no, sir. There was a wide divergence of opinion and policy.

Senator SHORTRIDGE. Did you retire because of any conflict?

Mr. TOWNSEND. No; it was just because I was a man very much out of place in that field of endeavor.

Senator JOHNSON. Why?

Senator SHORTRIDGE. You are a mining engineer, are you not?

Mr. TOWNSEND. Yes.

Senator HARRISON. I thought that was a pretty good place.

Mr. TOWNSEND. Peru was.

Senator HARRISON. I mean, the Department of Commerce.

Mr. TOWNSEND. They seem to get them out as soon as possible. I think it was largely due to the fact that owing to my years of previous experience I acquired the habit of trying to think accurately, and an optimistic department was a very poor place for me during my term of service.

Senator HARRISON. That is what you meant when you made the reply that you made a moment ago. I thought possibly your reply might be misconstrued, and that is the reason I asked you.

Mr. TOWNSEND. No sir; that is all. I am rather well convinced that I am not the type of man to work with chronic optimists during such a period as existed in Peru from 1927 to 1929.

Senator SHORTRIDGE. You do not preach pessimism as a desirable doctrine to spread abroad, do you?

Mr. TOWNSEND. Having been educated as an engineer, I try to preach facts as I see them.

The CHAIRMAN. Doctor Klein's optimism, however, has resulted in bringing a great deal of foreign trade to this country.

Mr. TOWNSEND. I have heard that that is true, sir.

The CHAIRMAN. I do not mean Peru, but all over the world.

Mr. TOWNSEND. Possibly that is true.

Senator HARRISON. The senator does not mean in the last two and a half years.

Mr. TOWNSEND. During the earlier period I have heard that claim very extensively.

Senator SHORTRIDGE. You are a mining engineer and you were in Peru. What are their principal mining products?

Mr. TOWNSEND. Copper and vanadium, some gold ore, and oil are the principal minerals that are exported. They have very valuable copper mines there and very valuable oil deposits.

Senator SHORTRIDGE. Copper and oil are on the free list under our law?

Mr. TOWNSEND. I think so.

Senator SHORTRIDGE. They ought to be on the protected list; do you not think?

Mr. TOWNSEND. I do not know, sir.

Senator SHORTRIDGE. Have you no definite opinion on that subject?

Mr. TOWNSEND. It depends on whether I am exporting or importing.

Senator SHORTRIDGE. It depends somewhat upon whether you want American oil industry and our copper mines to prosper; does it not?

Mr. TOWNSEND. I am not able to see that the tariff makes very much difference to them.

Senator SHORTRIDGE. You think that oil should just pour in here from Venezuela and Peru, free of duty, while our own wells are shut down because of so-called overproduction?

Mr. TOWNSEND. There is a very interesting report on that just issued by the Tariff Commission, which I have gone over with some care and interest. I have no opinion to deliver on the subject.

Senator SHORTRIDGE. Were you ever in Africa?

Mr. TOWNSEND. Yes, sir.

Senator SHORTRIDGE. Did you visit the copper mines there?

Mr. TOWNSEND. No, sir; I never visited the copper mines. I have not been in Africa for a matter of 20 years.

Senator SHORTRIDGE. With regard to labor in Peru, how does it compare with the price of labor and wages in America?

Mr. TOWNSEND. The day laborers in the copper mining district of Peru are getting now about \$1.25 a day, or equivalent to that. Of course fluctuations make it very difficult to analyze.

Senator SHORTRIDGE. About what would you say was the average daily wage of Americans working in our copper mines?

Mr. TOWNSEND. I think they are getting about \$5 or \$6.

Senator SHORTRIDGE. And the freight from Peru to New Orleans or New York, is that very heavy?

Mr. TOWNSEND. Yes. It is particularly heavy from the mines to the seaboard.

Senator SHORTRIDGE. How far are the mines from the seaboard?

Mr. TOWNSEND. In an air line they would be about 40 miles only, but three times that, almost, by the route they are obliged to go. They come down from an elevation of about 14,000 feet to sea level.

Senator SHORTRIDGE. To sum up the matter, to your knowledge they can mine copper there and transport it to the United States and sell it here more cheaply than we can mine and deliver it?

Mr. TOWNSEND. It depends upon the grade that they are working, sir.

Senator SHORTRIDGE. Well, take the same grade of copper.

Mr. TOWNSEND. If you take the same grade of copper, they could probably just about meet competition.

Senator SHORTRIDGE. What do you mean by that?

Mr. TOWNSEND. Meet the competition of the United States.

Senator SHORTRIDGE. Can they not mine and ship and deliver copper here at far less than any miner in Montana or Arizona?

Mr. TOWNSEND. I do not think so, sir.

Senator SHORTRIDGE. I do not agree with you.

Mr. TOWNSEND. They happen to be able to do it from the Cerro de Pasco mine, to get out a cheap product, because they have a content of gold and silver.

Senator SHORTRIDGE. It costs about 12 cents to mine it in Montana.

Mr. TOWNSEND. I do not know what the reports are of costs there.

Senator SHORTRIDGE. You are not familiar with the mining industry in Africa?

Mr. TOWNSEND. No, sir.

Senator SHORTRIDGE. I understand they can mine it there for about 7 cents.

Mr. TOWNSEND. They claim to mine it in Chile for about 4 cents.

Senator SHORTRIDGE. Precisely; and it costs us 11 to 12 cents in Arizona or California or Montana. Still you think we can compete with them. Is that your opinion?

Mr. TOWNSEND. I have not studied the subject enough to give any opinion about it, Senator.

Senator SHORTRIDGE. Very well.

Senator JOHNSON. I have a communication dated Lima, September 10, 1927, and I am not clear whether this was a report of yours or—

Mr. TOWNSEND. No; I think this came from a set of notes.

Senator JOHNSON. If it is not a report that was handed to some department, I do not care for it.

Mr. TOWNSEND. No; it is not a report.

Senator JOHNSON. Those are personal notes?

Mr. TOWNSEND. Yes.

Senator JOHNSON. That is all, sir, unless there are some other questions by other members of the committee.

The CHAIRMAN. There is no other witness to-day. We will adjourn until to-morrow morning at 10 o'clock.

(Witness excused.)

(Whereupon, at 11.55 o'clock a. m., the committee adjourned until to-morrow, Tuesday, January 12, 1932, at 10 o'clock a. m.)

[Excerpt from the record of January 15, 1932]

The CHAIRMAN. I want to say to the committee that I am just in receipt of a telegram from Mr. Samuel A. Maginnis. It does not say where it is from, but I think it is New York. The telegram reads as follows:

Surprised and shocked to read in evening newspapers report of testimony given by Oliver Townsend before Senate Finance Committee to-day, particularly statement he attributes to me as having been made at a dinner in Lima in 1927. I never have made any statement such as he attributes to me or any statement of a like nature, and I brand his testimony on this point as an unmitigated lie. Will gladly appear before committee to make this denial under oath and also answer any questions with reference to Peruvian tobacco loan which I negotiated on behalf of New York bankers.

Respectfully,

SAMUEL A. MAGINNIS.

Senator SHORTRIDGE. I suggest that he be invited or requested to appear before the committee.

The CHAIRMAN. I have just received, Senator Johnson, also from Mr. Maginnis, a letter. I will not take the time to read it, but will just insert it in the record at this point. It is dated January 12, 1932, on the same subject.

Senator SHORTRIDGE. Read it, Mr. Chairman.

The CHAIRMAN. Do you desire it read?

Senator SHORTRIDGE. I should like to hear it.

The CHAIRMAN. It is as follows:

Maginnis & Maginnis, Counselors at Law.

New York, January 12, 1932.

Senator REED SMOOT,

Chairman Senate Finance Committee, Washington, D. C.

DEAR SENATOR: I have been very much upset and concerned about the stories in the newspapers in the last two days, carrying the reports of the testimony of Townsend, particularly. The New York Sun last night and the American this morning both carried the excerpt from Townsend's report in such a way

as to make it appear that he was quoting me in making the statement that graft was rampant and that every South American loan had to be fixed with the officials and the Presidents, and that I said I was an expert at fixing.

This afternoon I called a friend of mine in the United Press and was told by him that they checked up last night when the story came through on their wire and found that what Townsend had said was that he could imagine my saying these things, and that they corrected their copy in their stories to conform. None of the New York newspapers carried anything to-day about my telegram to you as chairman of the committee, and I am wondering if it was read, or whether you are holding it to be read when the committee takes up Peru again.

I am at a loss to understand how the committee could allow such testimony as Townsend's to be read into the record, because it is so palpably and extravagantly ridiculous in every way, as well as biased and filled with spleen and personal animus, and entirely wide of anything to be considered in a serious investigation of this kind.

I am very anxious that my situation should be straightened out in view of the press reports that have been sent out, and sincerely trust that my telegram will be read into the record, and also will be presented to the committee in such a way that the press will give it the same amount of publicity that it gave to the statements, garbled and otherwise, of Townsend.

I will appreciate whatever you can do for me along this line and also repeat again that I will be very glad to appear and testify in person, if invited or requested to do so by the committee.

I will appreciate whatever advice or information you can give me about the situation.

Thanking you in advance and with very best personal regards, I am,  
Yours very truly,

ABBOT MAGINNIS.

Senator JOHNSON. I think, Mr. Chairman, that inasmuch as Mr. Maginnis is entitled to have his letter and telegram in the record—and I am glad to have them in the record—I shall be glad to have Mr. Maginnis appear before the committee and that I may examine him upon the only pertinent matter, in reality, concerning the particular transaction, and that is whether or not he received \$40,000 in the matter of the Peruvian loan.

The CHAIRMAN. I was hoping that perhaps we could get through to-day. Do you think it is worth while to have him come down?

Senator JOHNSON. We can tell better when we get through this afternoon, or during the afternoon, if you wish to wait until adjournment time.

Senator SHORTRIDGE. The telegram and letter have been read and are in the record, and as he expresses a desire to appear before the committee, I think he should be permitted to come and, under oath, respond to any proper questions put to him concerning the subject matter.

The CHAIRMAN. We will decide that sometime to-day, Senator.

[Excerpt from the record of January 14, 1932]

The CHAIRMAN. Before I call the next witness I want to read into the record a letter from the Secretary of Commerce which is dated January 14, 1932, addressed to myself. The letter is as follows:

DEPARTMENT OF COMMERCE,  
OFFICE OF THE SECRETARY,  
Washington, January 14, 1932.

HON. REED SMOOT,  
United States Senate, Washington, D. C.

MY DEAR SENATOR: I would like to call to your attention several misstatements that appeared in the reported testimony of former Commercial Attaché

Ollver C. Townsend before the Committee on Finance, on January 11. Press dispatches indicate that he made three specific points.

According to these accounts he testified that he voluntarily resigned from the Department of Commerce. This is untrue. He was dropped on account of completely unsatisfactory service.

He is reported to have stated that a letter from Assistant Director Thomas R. Taylor cautioned him to make his reports more optimistic, creating the impression that he was directed to distort the facts. The department has no record of a letter of this kind. The letter he seems to have in mind was concerned with replies to trade inquiries from American exporters and had no bearing whatsoever on financial or other economic reporting. His trade letters had been found to be curt to the point of discourtesy, and under the circumstances unnecessarily discouraging. If he possesses any communication other than the letter from Mr. Taylor referred to, it is suggested that he be asked to produce it.

Mr. Townsend testified, according to the press, that he had advised the department that American loans to Peru were unwise. A thorough search of our files fails to reveal any warnings of this nature. In fact, the tenor of his reporting was to the effect that the loans would help American trade. A file of his weekly and monthly economic cabled reports can be provided if desired.

Very sincerely yours,

R. P. LAMONT,  
*Secretary of Commerce.*

Senator JOHNSON. Who signs that letter, please?

The CHAIRMAN. The Secretary of Commerce, Mr. Lamont.

Senator JOHNSON. Obviously Mr. Lamont does not know the facts. I have very great regard for Mr. Lamont, but if he wants to testify to facts I think he ought to come here first.

Secondly, obviously he was not the Secretary of Commerce at the time and knows nothing in relation to the matters concerning which Mr. Townsend testified.

Third, the letter of Mr. Taylor to Mr. Townsend has been put in evidence this morning and speaks for itself.

The CHAIRMAN. I have simply read the letter to the committee at this time, and we will later see what action will be taken.



# SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

TUESDAY, JANUARY 12, 1932

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment on yesterday, January 11, 1932, in the committee hearing room in the Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), La Follette, Harrison, and Costigan.

Present also: Senator Johnson.

The CHAIRMAN. If the committee will come to order we will proceed with the testimony.

## TESTIMONY OF VICTOR SCHOEPERLE, VICE PRESIDENT, NATIONAL CITY CO., NEW YORK, N. Y.

(The witness was duly sworn by the Chairman of the Committee.)

The CHAIRMAN. Mr. Schoepperle, you live in New York?

Mr. SCHOEPERLE. I live in Short Hills, New Jersey, Senator.

The CHAIRMAN. Are you associated with the National City Bank?

Mr. SCHOEPERLE. I am a vice president of the National City Co., which is an affiliated corporation.

Senator JOHNSON. With the National City Bank?

Mr. SCHOEPERLE. Yes, sir.

Senator JOHNSON. How long have you been associated, please, with that company?

Mr. SCHOEPERLE. Since 1916.

Senator JOHNSON. For how long a period have you held your present position?

Mr. SCHOEPERLE. Since 1927, as an officer in my present capacity.

Senator JOHNSON. Will you state whether or not in 1930 you concluded an agreement with Colombia for the granting of short term credits to Colombia?

Mr. SCHOEPERLE. We did conclude a tentative agreement; yes, sir.

Senator JOHNSON. What was the date of that agreement?

Mr. SCHOEPERLE. June 30, 1930.

Senator JOHNSON. Have you a copy of that agreement?

Mr. SCHOEPERLE. We have a copy of that agreement.

Senator JOHNSON. Will you produce it, please?

(Witness produces a document.)

The CHAIRMAN. Make it a part of the record at this point.

Mr. SCHOEPPERLE. May I say in this connection, Mr. Chairman, that the business which we are about to discuss is a business which has not as yet been finally concluded in the sense that the obligations incurred arising out of this agreement have not yet been paid. This agreement, therefore, in my opinion, stands as a confidential matter which, under the present circumstances, should not become a public record; although it is at the disposal of any member of the committee who wishes to examine it.

Senator JOHNSON. I shall be very glad to have you explain on what theory you conclude that it is a confidential matter.

Mr. SCHOEPPERLE. Partly on the ground that it represents a loan transaction between a group of bankers, of whom we are but one, and the Republic of Colombia represented by the President of the Republic of Colombia; and although there is nothing in this agreement which gives us the slightest embarrassment, we feel that it should not be made a public document without the consent of the Republic of Colombia or its president.

Senator JOHNSON. Let us follow that out for just a moment, if you please. There was an agreement in respect to short term credits of Colombia, was there not?

Mr. SCHOEPPERLE. There was a tentative agreement.

Senator JOHNSON. That has been partially executed?

Mr. SCHOEPPERLE. That is true.

Senator JOHNSON. Has it been wholly executed as yet?

Mr. SCHOEPPERLE. The agreement has been wholly executed in so far as the loans contemplated by the agreement have been made.

Senator JOHNSON. Exactly.

Mr. SCHOEPPERLE. But the agreement is not fully discharged except as those loans are paid.

Senator JOHNSON. But the agreement has been executed by the parties to it; it has been consummated in accordance with its terms thus far, has it not?

Mr. SCHOEPPERLE. That is substantially correct; but inasmuch as it was a tentative agreement I would hardly say it was a definitive agreement. The definitive contracts arising out of this agreement have, however, as you suggest, been duly executed.

Senator JOHNSON. All right. Out of this agreement, which was a preliminary agreement, if you may term it such, or a tentative agreement as you describe it, came further agreement with Colombia; is that correct?

Mr. SCHOEPPERLE. That is so; loan contracts.

Senator JOHNSON. And those loan contracts are in existence at the present time?

Mr. SCHOEPPERLE. They are.

Senator JOHNSON. They are loan contracts by which securities of Colombia were taken by your institution and its associates?

Mr. SCHOEPPERLE. Not securities, Senator. These are loan contracts which provide for banking credits, advances on the books of the various banks that constitute a group. But there are no securities of any kind issued in connection with these contracts or agreements.

Senator JOHNSON. How long a period of time were you engaged in the execution or in the making of this preliminary contract?

Mr. SCHOEPFERLE. Would you like me to relate the facts of this loan agreement with Colombia from the inception of the conversations?

Senator JOHNSON. That is exactly what I am going to ask you to do and concerning which I am going to interrogate you. But I am now asking the question that I do because you assert that this particular tentative agreement is a privileged agreement which you do not wish to have made public. I cannot follow you in that matter. That is, however, a matter for this committee to determine, of course.

Mr. SCHOEPFERLE. Before I relate the facts as you have very kindly permitted me to do, I would like to say in response to your question that I do not feel like making this agreement public because I have not the consent of the various parties who are affected by it. We have nothing to conceal. I will tell you everything that there is in the agreement if you like. I would read it to you if the reporters would agree not to take a transcript of it.

Senator JOHNSON. Of course whatever is developed here the reporters will publish. That goes without saying. You want to keep that in mind.

In the making of the contract, how long were you engaged?

Mr. SCHOEPFERLE. May I relate the facts as you kindly permitted me to do?

Senator JOHNSON. Oh, yes; but I want first, if you will, to have you answer a few questions so that the committee may have before it the question whether there is any privilege attaching to it.

You were engaged in the making of the contract for a number of months?

Mr. SCHOEPFERLE. Strictly speaking, we were engaged in arriving at this tentative agreement over a period of perhaps five weeks.

Senator JOHNSON. During that period did you consult with the President of Colombia or the gentleman who subsequently became President of Colombia, in New York City?

Mr. SCHOEPFERLE. During that period the President of Colombia—now President of Colombia; then the President-elect—consulted with us.

Senator JOHNSON. In New York City?

Mr. SCHOEPFERLE. In New York City.

Senator JOHNSON. And during that period did you consult with any other person in New York City?

Mr. SCHOEPFERLE. With reference to this agreement?

Senator JOHNSON. Yes, sir.

Mr. SCHOEPFERLE. Only with our associate, the First National Bank of Boston.

Senator JOHNSON. Do you know Mr. Matthews of the State Department?

Mr. SCHOEPFERLE. I do, very slightly.

Senator JOHNSON. Was Mr. Matthews at any time with the President of Colombia in New York City?

Mr. SCHOEPFERLE. He was not, as far as I know.

Senator JOHNSON. At any time did Mr. Matthews talk to you concerning that particular agreement?

Mr. SCHOEPFERLE. He never did prior to the execution of this tentative agreement.

Senator JOHNSON. But after the execution of the tentative agreement did he talk to you concerning it?

Mr. SCHOEPPERLE. Mr. Matthews came to see me.

Senator JOHNSON. Where?

Mr. SCHOEPPERLE. In New York.

Senator JOHNSON. With whom?

Mr. SCHOEPPERLE. With himself; nobody else. It was some time in the latter half of the year 1931.

Senator JOHNSON. Was that the first time that you conversed with him concerning the matter?

Mr. SCHOEPPERLE. It was the first time I ever conversed with Mr. Matthews on that or any other matter.

Senator JOHNSON. Can you fix the time any better than the fashion that you have?

Mr. SCHOEPPERLE (referring to memorandum). Some time in June, 1931.

Senator JOHNSON. You said, the latter part of 1931. I thought you were in error about the date, and that is the reason I asked you.

Mr. SCHOEPPERLE. I am relying entirely on my memory.

Senator JOHNSON. Oh, that is all right; and I do not expect that one's memory can be exact as to dates. I know that mine is not. But some time in June, 1931, Mr. Matthews did call upon you in reference to this matter in New York City?

Mr. SCHOEPPERLE. That is so; yes, sir.

Senator JOHNSON. Subsequent to that time there were other agreements executed as the result of this tentative agreement?

Mr. SCHOEPPERLE. I am thinking just how to answer that question, because I want to state it exactly.

Senator JOHNSON. I simply am seeking the facts.

Mr. SCHOEPPERLE. Subsequent to Mr. Matthews' call on me in June—

(At this point Mr. Schoepperle's assistant, by reference to a file, said audibly that he thought the date of the call referred to must have been May 18, approximately.)

Senator JOHNSON. Wait a moment. When?

Mr. SCHOEPPERLE. About May 18. I am sorry; we have the record somewhat confused.

Senator JOHNSON. The record then, as I take it, is that it was on May 18 that he called upon you?

Mr. SCHOEPPERLE. About May 18.

Senator JOHNSON. What is the date of that tentative agreement?

Mr. SCHOEPPERLE. The tentative agreement is June 30, 1930.

Senator JOHNSON. Subsequent to May 18 when Mr. Matthews called upon you, were there other agreements executed?

Mr. SCHOEPPERLE. Subsequent to May 18, 1931, which is the approximate date of Mr. Matthews' call on me, there were no subsequent agreements executed except renewal agreements.

Senator JOHNSON. Renewal agreements of this tentative agreement?

Mr. SCHOEPPERLE. Agreements renewing loans made in connection with the tentative agreement.

Senator JOHNSON. Did you have any correspondence with the State Department in reference to the transaction?

Mr. SCHOEPPERLE. We never had any correspondence with the State Department of any kind on this subject.

Senator JOHNSON. What did Mr. Matthews call upon you about?

Mr. SCHOEPPERLE. One of the conditions which was suggested to the Government of Colombia in connection with the borrowings that arose out of this agreement and the subsequent contracts under which loans were put at the disposal of that Government one of the suggestions made by the bankers, was that they should keep their budget in balance. The budget of Colombia had been balanced on paper earlier that year. The bankers, under an arrangement made subsequently to the tentative agreement of June 30, had agreed to advance the Republic of Colombia \$4,000,000 which was part of the amount of the loan contemplated by the original agreement of June 30, on the condition, among other things, that the budget for 1931 should be balanced.

Senator JOHNSON. What other things?

Mr. SCHOEPPERLE. The following: First, the passage of a law creating an internal loan of 6,000,000 Colombian pesos designed to take up part of the internal floating debt of Colombia; second, the passage of an organic budget law which relates to this question of keeping the budget in balance; third, the enactment of a controller's bill designed to put the accounting of Colombia on a business-like accounting basis; fourth, a bill or law revising the somewhat antiquated customs system of Colombia which contributes a great part to the governmental revenue.

Those were the four conditions referred to which related to this \$4,000,000 which was up for discussion at about the time that Mr. Matthews called on me.

The purpose of his call was to discuss with us this question as to whether we, the bankers, were entirely right in certain technical constructions of this question of whether or not the Colombian budget was then in balance and whether the fact that it had been previously balanced in the early part of the year constituted a sufficient compliance with this condition of a balanced budget which related to these loans in general.

Senator JOHNSON. Did you call upon the State Department with reference to any matters connected with your loan?

Mr. SCHOEPPERLE. Never.

Senator JOHNSON. Did anybody representing your house?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. So this was the only conversation you had with anybody representing the State Department respecting it?

Mr. SCHOEPPERLE. It was the only conversation that I had with anybody from the State Department on Colombian matters of any kind.

Senator JOHNSON. And no letters or any kind of communications of any sort passed between you and the State Department?

Mr. SCHOEPPERLE. No letters; and when I say "us" I mean the National City Co. and the National City Bank. I think I can speak for the bank on that matter.

Senator JOHNSON. Do you know whether or not any letters or communications passed between any other persons and the State Department with respect to the matter?

Mr. SCHOEPPERLE. I do not know whether any communications passed between the State Department and any other persons in respect to this matter, but I never saw any.

Senator JOHNSON. Do you know that any were written by any of the people who were interested in the loan, to the State Department?

Mr. SCHOEPPERLE. I do not know whether any person interested in this loan, outside of ourselves, ever communicated with the State Department on the question.

Senator JOHNSON. You have now before you the tentative agreement that we have been discussing?

Mr. SCHOEPPERLE. I have; but may I remind you, Senator, that you permitted me some time ago, or gave me the privilege, of relating in my own way how this Colombian business began and how it has developed since, and what the present status of the matter is.

Senator JOHNSON. Would you prefer to do that before I ask that that particular agreement be put into this record?

Mr. SCHOEPPERLE. I would prefer to do that before you ask that it be put into this record.

Senator JOHNSON. Because I say to you, very frankly, that I am going to ask this committee to take this record and make it a public record.

Mr. SCHOEPPERLE. Then I would like to relate the circumstances of this operation—

Senator JOHNSON. I give you every opportunity to do it, sir.

Mr. SCHOEPPERLE (continuing). Before we come to this question as to whether this tentative agreement becomes a part of the record.

Senator JOHNSON. So far as I am concerned, you may, in your own fashion, explain as you desire.

Mr. SCHOEPPERLE. In the early part of 1930 the Colombian finance minister extended an invitation to the National City Bank to send a representative to Colombia for the purpose of examining the financial position and of advising the Colombian Government on ways and means to improve its credit standing.

Senator JOHNSON. What member of the Government was it?

Mr. SCHOEPPERLE. The minister of finance.

Senator JOHNSON. And his name?

Mr. SCHOEPPERLE. His name was Francisco Perez, as I remember it.

Senator HARRISON. He did not take that up through the State Department at all?

Mr. SCHOEPPERLE. No, sir.

Senator HARRISON. He took it up direct with you?

Mr. SCHOEPPERLE. Through our representative, Mr. Samels, in Bogota.

Senator JOHNSON. You did have a representative in Bogota at that time?

Mr. SCHOEPPERLE. The National City Bank has three branches in Colombia; one at Bogota. Mr. Samels was the representative of the National City Bank and he naturally looked after any matters that affected the National City Co.

Senator JOHNSON. Will you state his full name, please?

Mr. SCHOEPPERLE. William J. Samels.

Senator JOHNSON. Proceed.

Mr. SCHOEPPERLE. I visited all the important seacoast and interior cities in Colombia and made such observations as I thought were

relevant to the particular question of the Colombian finances, and after spending about a month in the capital I went home.

Senator JOHNSON. I would be very glad if you would give the approximate dates of these transactions.

Mr. SCHOEPPERLE. There were no transactions, of course, Senator, at that time.

Senator JOHNSON. I mean your travels—whatever you wish to term them.

Mr. SCHOEPPERLE. Approximately, I left New York in February and got back about the 15th of April. When I returned to New York I did nothing about this Colombian business because, while I regarded it as a magnificent country of great potential resources, it did not seem to me that under the type of administration that Colombia had had there was any business that would interest the National City Bank.

Senator JOHNSON. Did you go there to ascertain the possibilities of a loan under the suggestion that had been made?

Mr. SCHOEPPERLE. No, sir. I went there to investigate the financial condition, the condition of the Government finances.

Senator JOHNSON. You were investigating them for what purpose?

Mr. SCHOEPPERLE. For the purpose of determining what policy or attitude we should adopt in case the question of Colombian financing should be brought forward.

Senator JOHNSON. Of course, then, you were not entirely accurate in saying that you did not have in view the possibilities of a subsequent loan, were you?

Mr. SCHOEPPERLE. I think I am.

Senator JOHNSON. All right. You went there to investigate, then, the finances of Colombia without the slightest thought on your part with reference to any financial transactions subsequently with Colombia. Is that what you wish us to understand?

Mr. SCHOEPPERLE. I think the record contains my answer on this point.

Senator JOHNSON. Very well. I will ask you the direct question: Did you go there without the slightest reference to the subsequent possibility of a loan to Colombia?

Mr. SCHOEPPERLE. I went there for the purpose of investigating the finances of Colombia so that we might be in position at a later date to determine what our financial policy and attitude should be in case the question of Colombian financing might subsequently arise.

Senator JOHNSON. And you thought it was simply a possibility that it might subsequently arise?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Go ahead.

Mr. SCHOEPPERLE. At that time President Olaya had already been elected; that is to say, Olaya was already president elect of Colombia. Although he was in Colombia, I did not see him, but he subsequently came to New York and visited the United States in the capacity of president elect and, I suppose, to wind up his affairs here in Washington where he had been minister for Colombia.

In May, 1930, President Olaya asked me to come to Washington for a talk with him. He was interested in finding what views I had on the question of Colombian finances. I came to Washington and told Doctor Olaya in general terms how I felt about the Colombian

financial situation; admitted that his country was a country of magnificent resources and great potential wealth, but was, nevertheless, a country that had not been favored with good administration in recent years, and that I did not think that the National City Bank would be interested in any participation in Colombian financial affairs. He seemed to be somewhat discouraged by my point of view on the Colombian financial situation, and he asked me if I would think over and determine in my own mind what sort of a program of a constructive nature could be adopted in Colombia to reconstitute the credit of Colombia in the world markets, and whether there was any possible way by which the credit position of Colombia might be improved.

It was generally known—at least, it was known to me—that Colombia had had a floating debt which was in substantial amount, the exact amount not really determinable, and this floating debt was being neglected. The fact that it was there was having its adverse effect on trade and was causing a good bit of discomfort in Colombia and in the economic affairs of the country.

The CHAIRMAN. This conversation took place in Washington?

Mr. SCHOEPPERLE. It took place in Washington; yes, sir.

The CHAIRMAN. He was not president then?

Mr. SCHOEPPERLE. He was president elect then; and this meeting took place at his request. I did not seek him out at any time.

I think about a week or 10 days later he asked me to come over again, and I went over again, and at that time I said that while this question of Colombian finances was one that we were reluctant to go into, that nevertheless it was possible, in view of the good opinion in which the Colombian Government was held in banking circles, that a group might be formed so that any risks that might be taken in connection with the funding of the floating debt of Colombia, in reality in the form of credits, could be distributed and divided among the various banks that might be interested; that it was just possible that with a constructive political and financial program we might form a group which would consider advances to Colombia designed to relieve the floating position.

There was not anything further said about this question for several weeks, when Doctor Olaya came to New York en route to Colombia. I think he remained in New York several weeks in June, and while he was there he pursued with us this question of the formation of a group, and the question of what credit advances could be made available, and we laid out for him a tentative formula which contemplated credit advances amounting to \$20,000,000, global amount.

And now I will relate to you what is in this agreement.

Senator JOHNSON (interposing). Well, if you are going to relate what is in the agreement I will ask you—but go ahead. I won't interrupt you there.

Mr. SCHOEPPERLE. By this time the First National Bank of Boston, which held a very high opinion of Colombian finances because it had been close to the Colombian situation for years and had made a very careful study of it, joined us and we together with them had formed a banking group consisting of the National City Bank, First National Bank of Boston, Continental Illinois Trust Co. of Chicago, and the Bank of Manhattan Trust Co. of New York, and this group represented by ourselves and the First National Bank

of Boston proposed to Doctor Olaya to advance under a certain formula \$20,000,000.

The first \$3,000,000 of this global amount of \$20,000,000 was to be made available in Bogota by the Bogota branch of the National City Bank for its own account against security in the form of treasury orders of the Colombian Government which were circulating in the Colombian market unpaid; orders on the Colombian treasury having no definite date of payment but which were remaining unpaid by reason of the difficult financial position in which the Colombian Government then found itself, the floating condition to which I referred a few moments ago.

That was the first step in this tentative agreement of June 30. We had reason to believe that Colombia was to have an administration under Doctor Olaya such as it had not enjoyed for decades. Knowing the type of man he was and the ability of Doctor Olaya, we concluded that under a proper administration Colombia would be one of the best credit risks in South America.

You will understand that we were thoroughly familiar with the bulletin issued by the Department of Commerce in 1928, but this agreement of which I am speaking is about two or two and a half years later, is it not?

Senator JOHNSON. Whatever your date is.

Mr. SCHOEPPERLE. It is June of 1930. We were well aware of what we were doing. And the First National Bank of Boston had made investigations on its own account before it ever suggested that we join hands with them or form a group, and we on our part had likewise made our investigations over a period of years, our own private and independent investigations, but we were fully aware of what the Department of Commerce had published in its bulletin.

Now, the second step of this tentative agreement that was suggested —

The CHAIRMAN (interposing). Let me ask you right there: Was that \$3,000,000 credit given?

Mr. SCHOEPPERLE. That \$3,000,000 credit was promptly made available, but the Colombian Government and the various entities in Colombia who were privileged to use that credit, used it only to the extent of approximately \$1,900,000 or \$2,000,000. The full amount has never been used. That is a private banking transaction as between the National City Bank of Bogota and the borrowers, and the collateral under these credits are those treasury orders to which I referred constituting part of the unpaid floating debt of Colombia. Is that clear?

The CHAIRMAN. Yes. It was never consolidated into any future loan.

Mr. SCHOEPPERLE. No, it was not. Although with respect of it we speak of that as a part of the global amount of \$20,000,000. Is that clear?

Senator JOHNSON. Perfectly.

Mr. SCHOEPPERLE. The second step in this tentative agreement, I mean this tentative program covered by the tentative agreement of June 30, involved the purchase by this banking group on August 10 or thereafter from the Banco de la Republica, the Central Bank of Colombia, bills in its portfolio to the amount of \$4,000,000. And on

August 10 or thereabouts this group advanced to the Central Bank of Colombia \$4,000,000 against bills in its portfolio, bank transactions strictly. This was for the account of the group, this \$4,000,000.

The third step in this program was the following: On October 1 the Colombian Government had maturing with J. & W. Seligman & Co. and associated bankers a short-term advance of \$5,000,000, and we agreed, the group agreed, or we representing the group agreed, to meet that maturity on October 1.

Senator JOHNSON. On October 1, 1930?

Mr. SCHOEPPERLE. Yes. And that was done. Now, understand that there were no conditions attaching to those advances thus far described, no conditions of any kind. They were done on the belief that President Olaya would bring into the administration of Colombian affairs a condition that would make these advances perfectly safe, and they were with our own funds and funds of these banks that constituted the group.

The next step in this tentative program of June 30, 1930, was this: The group agreed to let the Colombian Government have for its current needs an additional \$4,000,000 providing that up to that time it had not been possible to make use of short-term notes, securities, of \$20,000,000, which was the global amount originally contemplated in the agreement; and as affairs developed it was impossible to make any use of the notes and securities, so that the next step in this agreement involved our advancing an additional credit of \$4,000,000.

Now let us get this reviewed to this point. First, the national City Bank of Bogota, the branch there, was in for \$3,000,000 for its own account to entitle borrowers in Colombia as against certain collateral; second, the group advanced, on August 10, \$4,000,000 to the Central Bank of Colombia to take certain collateral or bills out of its portfolio; third, on October 1 the group advanced \$5,000,000 to take up the short-term loan. Thus far the group is in for \$9,000,000.

I have just finished describing the next step, in which the group committed itself to go in for a further \$4,000,000. That was subject to certain legislation being enacted, and you understand that when we went into this business, that we went into it under the theory that under the administration of Doctor Olaya a constructive program could be developed with reference to the budget, the controllership, the administration of Colombian railways, which would build up and integrate the resources of that country and make it a prime credit. So that with respect to this last \$4,000,000 there were certain things which the Government was asked to do before we advanced that amount, which would make a total of \$13,000,000 when it should have been advanced, \$13,000,000 by the group and \$3,000,000 made available by the bank at Bogota.

The CHAIRMAN. Was that legislation enacted?

Mr. SCHOEPPERLE. I will read you what the conditions were: In the first place we asked him to get authority for a \$20,000,000 loan, so that if it came to the point we would have the opinion of counsel that any loan that might be made for \$20,000,000 would have proper authority under constitutional law. Second, we asked him for a balanced budget law for 1931. These were perfectly reasonable requests we felt.

Senator KING. I hope you will make that request of our Government, to balance its budget.

Mr. SCHOEPFERLE. Third, we asked him for a law authorizing the autonomous organization and administration of the Colombian railways. The Colombian railways are owned by the Colombian Government. The country geographically is a difficult country. The transportation problem is one of its greatest problems, and the transportation system has been the basis of a great part of Colombian expenditures, just as was the case in our country when we built our railroads. Great borrowings have been made to build the transportation system of Colombia. It is in the hands of the Government, is in politics, and we asked that these Colombian Railways be put in the hands of an autonomous administrative organization so that they could be run on a business basis.

We also asked that the autonomous corporation should have control of goods moving through the ports as a part of the transportation system of the country.

And last of all, the fourth condition affecting that \$4,000,000 last spoken of, we asked for a law providing for a debt limit, so that the Government of Colombia would be limited with respect to the amount of debt that it could incur, a debt limitation law.

Now, Senator Smoot, I should like to answer the question you just asked: The first condition was met. There was an authorization, and it is a matter of public record, providing for these loans of \$20,000,000. Second, the budget was balanced for 1931 at a certain point on paper, but as the year 1931 advanced the budget fell out of balance. But there was a law enacted presenting a balanced budget for 1931, and there were various revisions made in 1931 seeking to put that budget into balance, although it wound up, at the end of 1931, out of balance.

There was a law passed authorizing the autonomous administration of the Colombia railroads, but the ports were left out. Nevertheless there is an autonomous or quasiautonomous public corporation existing in Colombia to-day as a result of this legislation. The Government finances no longer include the revenues and expenditures of the railroads, and we think there has been a tremendous improvement in the affairs of Colombia effected by the passage of that law.

There has been a law passed in Colombia limiting the total debt which the Government may incur. That is a highly technical consideration but the law is on the books and it is the law of Colombia to-day.

So that these conditions were substantially met, as well as they could be met.

The CHAIRMAN. And the limit of Colombia's indebtedness is \$30,000,000?

Mr. SCHOEPFERLE. This debt limitation law has no reference to the figure \$30,000,000. No; it goes into certain percentages, sets up formulas, whereby the Government can not incur debts that require more than about 30 per cent of the total annual revenue of the Colombian Government in order to service these debts. Is that clear?

Then this agreement goes on to recite that if a \$20,000,000 loan is made under that authorization that these credit advances shall be repaid. And it also goes on to recite that any advances made under it shall meet with the approval of counsel as to their legality. It goes on to recite that there shall be certain clauses, what we call negative pledge clauses, so that if the Government pledges any of its

revenue at any time to some other loan this loan shall equitably and ratably share in such pledge. It goes on to recite that the debt is in United States dollars and not Colombian pesos. In other words, when repaid it must be repaid in dollars.

Now, we have finished, I think with the contents of the June 30 agreement. I should like to go on and say that the agreement was amended, or at least that there was a subsequent agreement on October 25, under which the bankers consented to advance an additional \$4,000,000, which would make the global amount \$20,000,000 if the \$3,000,000 made available by the Bogota branch of the National City Bank had been fully taken up. But as a matter of fact the amount of these Colombian credits to-day is not \$20,000,000. Actually there is \$16,800,000, roughly speaking, outstanding from the group; and as to the National City Bank at Bogota, the advances made there have been somewhat paid off and reduced, and the amount now is \$1,600,000. So that the total amount advanced under this global tentative agreement is to-day about \$18,400,000.

Now, to go back to the agreement of October 25. It developed that although the banking group had not agreed to advance more than these sums I have recited out of the June 30 agreement, namely, \$4,000,000 to the Banco de La Republica, \$5,000,000 to take up short time advances, \$4,000,000 advanced under the conditions I have recited, and I have recited four conditions, that is, a total \$13,000,000, it developed that that \$13,000,000 would not carry the floating position, and that the Government would need an additional \$4,000,000, so they asked us to increase the commitments that we had taken by an additional \$4,000,000. And after serious consideration of the legislation that had been passed, which we thought was highly constructive, and after some discussion with the Colombian Government as to whether they had balanced their (projected) budget for 1931 or had not done so, we finally consented to brush the cobwebs aside on those terms and agreed to advance this additional \$4,000,000. But we made certain stipulations again, all designed to build up this constructive financial program that we thought was necessary in order to make the Colombian credit one of the outstanding foreign credits in this market, and those conditions were the following—

Senator JOHNSON (interposing). Is that agreement in writing as well?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. Have you that agreement?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. If you will take it out and put it in front of you, please, because we will discuss it subsequently.

Senator COSTIGAN. What were the cobwebs that you refer to that were brushed aside?

Mr. SCHOEPPERLE. Those discussions as to whether the budget was balanced or not. That was a highly specialized question. You may discuss a budget indefinitely, but there were a great many little technical questions as to the condition of this budget, as you may understand, and we got tired of discussion and finally said: If Doctor Olaya says he is going to balance the 1931 budget, we will take his word for that, and we have the highest confidence in his ability and integrity to carry out what he sets out to do, so we will not discuss

that any further. And we agreed to allow him to have the additional \$4,000,000.

The CHAIRMAN. And did Colombia keep within its budget afterwards?

Mr. SCHOEPPERLE. No; the budget for 1931 resulted in a deficit despite our efforts to keep it within bounds.

The CHAIRMAN. How much?

Mr. SCHOEPPERLE. Officially it was 5,500,000 pesos. That is the official estimate. The final accounting is not in.

Senator KING. What that by reason of the failure of Colombia to collect revenues which were anticipated, or by reason of an increase in expenditures and not within the contemplation of the parties when the understanding was entered into?

Mr. SCHOEPPERLE. I should like to say in connection with the Colombian budget that up to 1930, and years earlier, the Colombian budget of revenues and expenditures had run about 75,000,000 pesos, and in 1930 they cut it to about 49,000,000 pesos, which was a tremendous cut. But, despite the cut, it developed that the revenues did not come up to the expectations contemplated in this 49,000,000-peso budget, and, answering your question more directly, the deficit was largely due to failure of revenues to come up to the estimates.

Senator KING. Then they had cut their expenses to a considerable extent—nearly half.

Mr. SCHOEPPERLE. Yes; in fact, at that time it was about 33 $\frac{1}{3}$  per cent. And to-day the Colombian budget runs about 37,000,000 pesos as compared with 75,000,000 pesos two years ago. So that you may easily see there was a discussion of technical points in the matter of this budget. When you are trying to knock the budget into some kind of recognizable shape, it is subject of discussion.

Senator KING. What revenue was it that fell off? Was it in the matter of customs duties by reason of diminished imports, or was it internal taxation that did not meet the anticipation of the parties?

Mr. SCHOEPPERLE. It was largely customs revenue. The customs revenues comprise a substantial part of the total revenue of Colombia. Of course the general economic and commercial crisis throughout the world reduced the buying power of the Colombian people and the amounts of the exports from the United States and elsewhere were materially reduced. So that the customs revenues fell off substantially.

Now, I had stated that we made certain stipulations in connection with this advance, provided for in the letter of October 25, of \$4,000,000. We made stipulations that there should be an enabling act authorizing an internal bond issue of \$6,000,000. Second, the organic budget law. Third, the reorganization of the office of comptroller general. Fourth, the reorganization of the customs, which were falling off.

Senator JOHNSON. Are you now referring to your agreement of October, 1930?

Mr. SCHOEPPERLE. I am referring to the agreement of October 25, 1930.

Senator JOHNSON. Is there anything further that you desire to say in explanation of your dealings with Colombia?

Mr. SCHOEPPERLE. Now, I would say this: That these advances which were made from time to time, the last one June 30, 1931, a little

over six month ago, of \$4,000,000, and the one preceding that of March 17, 1931, of \$4,000,000, and you might say that that was the second last \$4,000,000; that these advances, with the exception of the amount advanced by the National City Bank at its Bogota branch, have all been renewed and consolidated into a single renewal contract, which expires now March 31, 1932.

The CHAIRMAN. Have the interest payments been kept up?

Mr. SCHOEPPERLE. The interest payments have been made in advance. In other words, the business is on a discount basis. That is to say, as they mature and are renewed the interest is paid in advance through bank discounts.

Senator JOHNSON. Are there any other loans that have been made by you or your establishment by itself or in connection with anybody else to the Republic of Colombia?

Mr. SCHOEPPERLE. The National City Bank and the National City Co. have made no other loans of any other kind or description to Colombia or to any of its political subdivisions.

Senator JOHNSON. Are you familiar with any of the loans that have been made by political subdivisions in Colombia?

Mr. SCHOEPPERLE. I would not say I am familiar with them. In a general way I know about them.

Senator JOHNSON. Do you know whether or not any of them have defaulted?

Mr. SCHOEPPERLE. I know that all those which have had maturing coupons since December approximately have actually defaulted with respect to the payment of dollars in New York; but that these debtor entities have in some cases deposited pesos in the Central Bank in Colombia as earnest of their good faith in connection with their obligations now in default as to dollars.

Senator JOHNSON. But they are not permitted under the Colombian Government's decree to transmit them, are they?

Mr. SCHOEPPERLE. The exchange control commission in Colombia has absolute power to determine what transfer shall or shall not be made, and I understand that the exchange control commission is not permitting transfers for the purpose of paying coupons on departmental and municipal loans.

Senator KING. Is that to preclude an exodus of gold from that country?

Mr. SCHOEPPERLE. The purpose of that regulation is to conserve the gold resources of the Central Bank. The gold resources of the Central Bank of Colombia have been seriously impaired, particularly since the fall of the pound sterling, by withdrawals of investments in Colombia in the hands of foreigners. In other words, there have been very heavy withdrawals from New York, by banks in New York, with correspondent banks in Colombia, and those withdrawals were met through the Central Bank. But once the reserves of the Central Bank had been reduced to what was considered a danger point, an exchange control commission was appointed to prevent further withdrawals of gold reserves from Colombia. So the answer to the question is, to avoid depletion of the gold reserve, the dwindling of the gold reserve.

Senator KING. Let me ask a question right here off the record.

(Thereupon Senator King asked and Mr. Schoepperle answered several questions in regard to Colombia which Senator King did not consider relevant to this inquiry.)

Senator SHORTRIDGE. Is Colombia now on what we might call the gold basis?

Mr. SCHOEPPERLE. Colombia has been on a gold basis up to the time this exchange control commission took control of all transfers, and from that point on she is on what you might call a gold exchange basis, and that is to say that she settles her international obligations in gold in so far as that commission allows gold to leave the country.

Senator KING. But she has not gone as far as Great Britain and announced that she has gone off the gold standard.

Mr. SCHOEPPERLE. No, sir.

Senator SHORTRIDGE. These outstanding international obligations are on a gold standard?

Mr. SCHOEPPERLE. Yes, sir. There is the usual clause that the obligations to Americans are to be paid in gold dollars of the standard weight and fineness.

Senator JOHNSON. Now, will you give for the purpose of the record the dates and amounts of your transactions with Colombia? I want to get the exact dates, and I presume your assistant can give them.

Mr. SCHOEPPERLE. The exact dates on which this money was to be at the disposal of the Colombian Government?

Senator JOHNSON. Yes, sir. Take the various amounts and the exact dates.

Mr. SCHOEPPERLE. With pleasure.

Senator JOHNSON. The transactions I had assumed were not many and therefore it would not be difficult for you to give them to us now.

Mr. SCHOEPPERLE. That is right. There are about five transactions. (At this point witness paused waiting for assistant to look up the dates and amounts requested.) My point is that the documents constitute a part of an agreement which is in process, that it is not finished business, and that there are parties to these documents whose consent I have not obtained, including President Olaya himself, and that it would not be fair to him, although I have no objection, and our associates in the banking group would not have the slightest objection, to putting these documents on your public record; any more than that any of us would like to have our private contracts on record.

Senator JOHNSON. But you have stated what they are.

Mr. SCHOEPPERLE. I have honestly stated to you what they are.

Senator JOHNSON. And you have stated it accurately, of course.

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. It will not do any harm to put the documents in evidence, then.

Mr. SCHOEPPERLE. Don't you think it is only fair to consult with President Olaya and to get his consent before doing so?

Senator JOHNSON. No. I do not see any reason why he should be consulted in reference to our investigation here. Not a bit. But let us return to the question I have asked you, as to the amounts and dates.

Senator SHORTRIDGE. In a general way, what is this contract, Senator Johnson?

Senator JOHNSON. Mr. Schoepperle has produced the original tentative agreement with Colombia respecting the credits that should be accorded by the banking group, or his bank, to Colombia, and it is that agreement which he is saying he thought ought not to be produced and put in the record. But he has testified as to the contents of it, so now it would make no difference I take it.

Senator SHORTRIDGE. The contract with the President of Colombia?

Senator JOHNSON. Yes.

The CHAIRMAN. Senator Johnson, is there any other information in relation to the whole transactions you would like to know about?

Senator JOHNSON. A great deal. I am coming to it now. I want to get the chronological order of the payments that were made to Colombia, and then desire to pursue the examination respecting it.

Senator SHORTRIDGE. As to this agreement, the President of the country is a party to it?

Mr. SCHOEPPERLE. He is a party to the June 30 agreement, but the October 25 agreement, if you call it that, is merely a letter from the bankers to the President of Colombia. I maintain that this correspondence is privileged. It is true, as Senator Johnson says, that I have told him what is in it, and now he asks me to put it in the record. I respond that I have told him what is in it and why put it in the record? I think there is a question of courtesy involved towards the President of a sovereign republic to put his papers in our public records.

The CHAIRMAN. Senator Johnson, suppose you go on and get the information you ask for.

Mr. SCHOEPPERLE. I am getting these dates for you.

Senator JOHNSON. That is what I wish.

Mr. SCHOEPPERLE. Now, I am not speaking of the \$3,000,000 placed at the disposal of Colombia borrowers on the collateral of Treasury orders in Colombia by the National City Bank, Bogota branch.

Senator JOHNSON. But you can give that date.

Mr. SCHOEPPERLE. That date would in fact be various dates immediately subsequent to June 30, 1930, agreement. The National City Bank, Bogota branch, undoubtedly made 50 or 100 loans to different entities who held those treasury orders.

Senator JOHNSON. All right. Proceed.

Mr. SCHOEPPERLE. The first advance by the group was dated August 13, 1930, and consisted of the purchase from the Banco de La Republica of bills in its portfolios, amounting to \$3,864,734.30.

The second transaction was October 1, 1930, when the group paid over to J. & W. Seligman & Co. and associates \$5,000,000, representing an advance maturing as of that date.

In March 17, 1931, there was an advance of approximately \$4,000,000 as provided in the letter of June 30, consisting of \$2,823,529.14, and pounds sterling 96,838 16 shillings and 4 pence; and francs 18,010,588.15, a total of approximately \$4,000,000.

On June 30, 1931, when we made the advance of the final \$4,000,000 we advanced \$2,823,529.41; pounds sterling 96,713 8 shillings and 9 pence; and francs 18,024,705.80.

Senator JOHNSON. Was there any controversy or argument or delay in the granting of any of these sums?

Mr. SCHOEPFERLE. I would not say there was any controversy, but there was argument at times over the question as to whether or not the budget had been balanced.

Senator JOHNSON. Did you object to the granting of them?

Mr. SCHOEPFERLE. Senator Johnson, we undertook to grant—

Senator JOHNSON (interposing). I speak of your personally.

Mr. SCHOEPFERLE. Me personally?

Senator JOHNSON. Yes.

Mr. SCHOEPFERLE. No; I had no grounds for objecting to the granting of the credits.

Senator JOHNSON. That is the question. You made no objections at all to granting that?

Mr. SCHOEPFERLE. Why, no.

Senator JOHNSON. Do you keep fairly good track of what transpires in Colombia? I assume that you do from what you have said.

Mr. SCHOEPFERLE. I do.

Senator JOHNSON. Do you follow the proceedings of communications by President Olaya to the congress there?

Mr. SCHOEPFERLE. Well, our representatives in Colombia send us any information concerning the bills or the laws referred to in this tentative scheme for the financial reconstruction of Colombia.

Senator JOHNSON. Do you know whether or not there was any controversy with President Olaya, or any pressure brought to bear upon him in regard to petroleum legislation?

Mr. SCHOEPFERLE. I do not.

Senator JOHNSON. Do you know anything about the petroleum legislation that was enacted by Colombia?

Mr. SCHOEPFERLE. I do not know anything about that legislation, except that in general terms there was a law enacted in Colombia in 1930 which is said to have settled the controversy over the Barco concession. Or I believe it was in 1931.

Senator JOHNSON. You are correct. It was in 1931. But in 1930 do you recall that there was legislation that related to the petroleum laws and that a particular kind of law was enacted?

Mr. SCHOEPFERLE. I did not know that there was any legislation pending in 1930.

Senator JOHNSON. Do you know whether or not in 1931 there was any laws enacted relating to the petroleum deposits in Colombia and the petroleum laws there?

Mr. SCHOEPFERLE. I know in a general way that there was a law enacted in 1931 which is said to have settled the controversial questions between the Colombian Government and oil companies.

Senator JOHNSON. Do you recall any addresses that were made by President Olaya in respect of those laws or in respect of the Barco concession?

Mr. SCHOEPFERLE. I do not. I never read any of those addresses and never felt myself concerned with them.

Senator JOHNSON. Do you know whether there was objection upon the part of President Olaya to the enactment of any law relating to petroleum or relating to the Barco concession?

Mr. SCHOEPFERLE. I did not know of any objection on the part of President Olaya to any laws that were enacted. On the contrary, I was under the general impression that he wished to enact legislation designed to settle this long-standing controversy.

Senator JOHNSON. Do you know anything about what was said to him in respect to the enactment of those laws?

Mr. SCHOEPPERLE. I know absolutely nothing about what was said to President Olaya in respect to any oil legislation or any oil controversy.

Senator JOHNSON. Were you present at the time when there was any conversation with anyone representing the Colombian Government, or anyone indorsed by our own Government, relating to petroleum laws in Colombia?

Mr. SCHOEPPERLE. I never was.

Senator JOHNSON. What was the Barco concession that you have referred to?

Mr. SCHOEPPERLE. I can not tell you exactly what the Barco concession is, but I understood that there was a General Barco who obtained, long ago, a concession for some oil-bearing lands in Colombia, and that this concession eventually came into the hands of an American oil company.

Senator JOHNSON. What company?

Mr. SCHOEPPERLE. I think it is the Gulf Oil Co. I know that there are great constitutional questions in Colombia dealing with the legal status of subsoil minerals, and that a controversy arose as between the Colombian Government and the owners of this Barco concession over the title, as I believe it was, to the oil-bearing lands; and this being a very controversial legal question in Colombia those interests disagreed. That is all that I know about the Barco concession. And that I only know because I read it in some study or other by a Harvard scholar who wrote on the legal status of oil-bearing minerals under the Colombian law. Nobody ever told me anything about the Barco concession.

Senator JOHNSON. Did you know that the Barco concession was rescinded or declared void at one time?

Mr. SCHOEPPERLE. That was stated in this piece of research work that I read.

Senator JOHNSON. Well, did you know it in any other fashion at all?

Mr. SCHOEPPERLE. I did not know it in any other way, except that the newspapers do carry information at times about these things. But I did not have my information from the newspapers. I had read in a scholarly treatise on this subject that this concession had fallen into dispute.

Senator JOHNSON. Not only into dispute but it had been rescinded, had it not, by the Colombian Government?

Mr. SCHOEPPERLE. Well, I suppose it had. I can not state exactly what that paper said, but I believe it had been rescinded.

Senator JOHNSON. Do you know whether it was reinstated or revalidated subsequently?

Mr. SCHOEPPERLE. I only know that there was legislation enacted in 1931 which solved this question of the disputed status of the Barco concession.

Senator JOHNSON. Well, there was a regrant of it, was there not?

Mr. SCHOEPPERLE. I could not tell you that, Senator JOHNSON. I do not know whether there was a regrant, or whether the thing was reinstated, or whether actually it had been originally rescinded years back. I do not know as to that.

Senator JOHNSON. Then you have no knowledge whatsoever upon that subject?

Mr. SCHOEPPERLE. Upon these subjects, no.

Senator JOHNSON. Except what you have read or seen in this particular treatise that you mention.

Mr. SCHOEPPERLE. That is true. I have never discussed the Barco concession with anybody. I do not know anything about it. I am not interested in it, and have not been.

Senator JOHNSON. Would there be anybody else in your establishment to whom representations would be made concerning the loan to Colombia or conditions respecting it, other than yourself?

Mr. SCHOEPPERLE. There would not be. If any representations were made to anybody in the National City Bank or the National City Co. in respect of oil questions in Colombia those representations would certainly come to my knowledge, and they never have.

Senator JOHNSON. Well, now, I presume that you observe, do you not, or read with some degree of interest, anything relating to Colombia or to President Olaya.

Mr. SCHOEPPERLE. I observe everything that comes to my attention with respect to Colombia when it involves considerations that are affected by the contracts or agreement which we have entered into. But collateral questions are only of collateral interest.

Senator JOHNSON. Do you recall seeing in the New York Times of August 8, 1931, a speech by President Olaya?

Mr. SCHOEPPERLE. I do not.

Senator JOHNSON. Do you recall that in that particular statement he then made he stated that Secretary of the Treasury Mellon had told him to speed up oil problems in order to make possible the financial recovery of the country?

Mr. SCHOEPPERLE. I do not recall that.

Senator JOHNSON. You have no recollection of having seen that at all?

Mr. SCHOEPPERLE. None whatsoever.

Senator JOHNSON. Did you know that there was any rivalry in Colombia between the Texas Co. and the Tropical Oil Co.?

Mr. SCHOEPPERLE. I did not know of any such rivalry.

Senator JOHNSON. Did you know anything about the concessions that they have had in Colombia?

Mr. SCHOEPPERLE. Absolutely nothing.

Senator JOHNSON. Did you make any investigation when you were investigating the financial condition of Colombia, concerning the value of the oil concessions that had been granted?

Mr. SCHOEPPERLE. Absolutely not.

Senator JOHNSON. Did President Olaya in talking to you at any time say anything to you about the petroleum situation there?

Mr. SCHOEPPERLE. Never.

Senator JOHNSON. How many times did you discuss with him, do you think, the finances of Colombia?

Mr. SCHOEPPERLE. Four times possibly.

Senator JOHNSON. Only four?

Mr. SCHOEPPERLE. Only four.

Senator JOHNSON. Were those in New York City?

Mr. SCHOEPPERLE. Twice in Washington and twice in New York City.

Senator JOHNSON. And during those discussions, he on no occasion suggested anything—

Mr. SCHOEPPERLE (interposing). Absolutely not.

Senator JOHNSON (continuing). In relation to oil or in relation to the Barco concession?

Mr. SCHOEPPERLE. Absolutely not, Senator.

Senator JOHNSON. Well, that is exactly what I am trying to ascertain. I am glad to have your answers in respect to it. During the time you were having your discussions with President Olaya, was anybody else present?

Mr. SCHOEPPERLE. There was no one present when I talked with President Olaya in Washington. When I talked with President Olaya in New York on one occasion he was alone in my office, and on the other occasion he attended a luncheon, which was approximately June 28 or 29, 1930, just before we signed this tentative agreement. That was a luncheon given in his honor, and at that time Caffery—

Senator JOHNSON (interposing). Who is Mr. Caffery?

Mr. SCHOEPPERLE. He is the American minister to Bogota.

Senator JOHNSON. At this luncheon in New York that you have referred to, the American minister at Bogota was present with the President of Colombia.

Mr. SCHOEPPERLE. Yes; the president elect of Colombia. And I should say that there were others present.

Senator JOHNSON. Did you have any conversation concerning your dealings with Colombia with Mr. Caffery?

Mr. SCHOEPPERLE. Not with Mr. Caffery, but in his presence.

Senator JOHNSON. With whom?

Mr. SCHOEPPERLE. With the president elect of Colombia.

Senator JOHNSON. At any time subsequent to that or prior to that did you have any conversation with Mr. Caffery in regard to your dealings with Colombia?

Mr. SCHOEPPERLE. Subsequently I have had conversations with the financial representative of Colombia, Mr. George Rublee on two or three occasions. Mr. Caffery was present but my conversations were with Mr. Rublee.

Senator JOHNSON. Did those conversations relate in any degree to the oil laws?

Mr. SCHOEPPERLE. Never.

Senator JOHNSON. Or to the Barco concession?

Mr. SCHOEPPERLE. Absolutely never.

Senator JOHNSON. Do you know who wrote those petroleum laws passed in 1931?

Mr. SCHOEPPERLE. I do not know who wrote those petroleum laws. I only know that Mr. Rublee was brought to Colombia by Doctor Olaya to advise him in respect to those legislative measures taken in connection with the settlement of this oil controversy.

Senator JOHNSON. How do you know that?

Mr. SCHOEPPERLE. I do not know that for an actual fact, but I know that Mr. Rublee was associated with Mr. Morrow in the settlement of some Mexican oil controversies, and that President Olaya invited him to assist in connection with this controversy in Colombia. I know by the general admission of Mr. Rublee himself that he had

something to do with it. But I do not know as a matter of fact that he wrote any law whatever.

Senator JOHNSON. Well, there was somebody at some time to whom you did talk about the petroleum laws?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. You know that Mr. Rublee went to Colombia for the purpose of writing laws or of assisting President Olaya?

Mr. SCHOEPPERLE. I did not learn that from Mr. Rublee.

Senator JOHNSON. How did you learn it?

Mr. SCHOEPPERLE. From the newspapers.

Senator JOHNSON. But you talked with Mr. Rublee.

Mr. SCHOEPPERLE. After Mr. Rublee came back I talked to him, and I know by his general admission he must have had something to do with the oil matter.

Senator JOHNSON. What general admission do you refer to?

Mr. SCHOEPPERLE. Well, I did not say to Mr. Rublee: Did you write the oil laws in Colombia. No.

Senator JOHNSON. And I have not asked you that.

Mr. SCHOEPPERLE. But he referred—well, he came to see us, and referred in a general way to the fact that he had been in Colombia.

Senator JOHNSON. And that he had been there concerning the oil laws?

Mr. SCHOEPPERLE. He made some mention of it, but I never discussed it with him.

Senator JOHNSON. It is a perfectly natural thing.

Mr. SCHOEPPERLE. He might have said something about being down there in connection with the oil laws and I dropped it.

Senator JOHNSON. But there was something he said about the oil laws.

Mr. SCHOEPPERLE. I think he made reference to it, telling me that he had been down to Colombia, but I did not discuss it with him.

Senator JOHNSON. What did he say to you about it?

Mr. SCHOEPPERLE. I do not think he said anything in particular. I think he said he had been down there in connection with the oil controversy.

Senator JOHNSON. Didn't you ask him about it?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Considering your interest in Colombia, didn't you make any inquiry about it at all, about the most controverted question that Colombia had?

Mr. SCHOEPPERLE. Most certainly not.

Senator JOHNSON. It was the most controverted question that existed in Colombia.

Mr. SCHOEPPERLE. It might have been so far as the public was concerned, but so far as I was concerned there were a great many questions that were far more controversial, namely, the budget of 1931.

Senator JOHNSON. You made no inquiries of him then about it?

Mr. SCHOEPPERLE. Absolutely not.

Senator JOHNSON. Will your memory serve you in determining whether or not there was anybody else besides Mr. Rublee who made any mention or who might have casually mentioned the oil laws to you?

Mr. SCHOEPPERLE. No one ever did.

Senator JOHNSON. Mr. Rublee, as I take it from what you have said, and I was not aware of the fact, was taken to Colombia by the President of that Republic in order to solve the vexed question of the petroleum laws.

Mr. SCHOEPPERLE. I did not say that was a fact. That is simply my understanding.

Senator JOHNSON. That was your understanding from Mr. Rublee.

Mr. SCHOEPPERLE. From the newspapers and from Mr. Rublee.

Senator JOHNSON. Possibly from your own agents.

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Have you your communications with your agent down there?

Mr. SCHOEPPERLE. Yes, sir; we have those communications.

Senator JOHNSON. Is there anything in relation to the laws that should be communicated to you by the Colombian Government aside from those matters that were purely fiscal in character that you have spoken off?

Mr. SCHOEPPERLE. Absolutely not.

Senator JOHNSON. It has been suggested that I ask you the substance of your talk now with Mr. Rublee in regard to the oil laws of Colombia.

Mr. SCHOEPPERLE. I did not have any talk with Mr. Rublee with regard to the oil laws of Colombia.

Senator JOHNSON. Then the substance of the talk that Mr. Rublee had with you in regard to the oil laws of Colombia.

Mr. SCHOEPPERLE. Senator Johnson, Mr. Rublee had no talk with me about the oil laws of Colombia. Mr. Rublee presented himself to me subsequent to his return from Colombia, and I will say that I had read in the newspapers that Mr. George Rublee had returned from Colombia. And I think he had made a statement in the press at the time something about those oil laws in Colombia. He casually said, as I suppose, and I certainly do not remember it, that he had been down in Colombia and had just got back. And anybody would know that from reading the headlines in the newspapers, that he had just got back, and that there was a statement he had made, but I had absolutely no discussion with him about it.

Senator JOHNSON. We will eliminate now the question of discussion. But there was some conversation of some sort, not coming from you doubtless from what you say, but something that Mr. Rublee had to say to you, about the oil laws there. Can not you recall what it was?

Mr. SCHOEPPERLE. Only possibly casually, a casual reference to the fact that he had just got back from Colombia and that the oil controversy had been settled.

Senator JOHNSON. Did you know at any time during your intimate knowledge of Colombia to whom the Barco concession belonged?

Mr. SCHOEPPERLE. I knew that it belonged to the Gulf. I knew that about as well as I know a lot of other matter that was irrelevant to my consideration.

Senator JOHNSON. But let us suppose that it was not irrelevant to President Olaya. He is interested in his government, and assuming, for the purpose of the argument, that President Olaya has asserted that it was absolutely essential that his country should pass such laws

as were necessary in order that he might obtain loans. Would you say then it was irrelevant to this subject?

Mr. SCHOEPPERLE. It was irrelevant to me as administrator of these bank loan contracts.

Senator JOHNSON. Now, laws were passed contemporaneously practically with the making of these loans, were they not?

Mr. SCHOEPPERLE. What date was the oil law passed that you refer to?

Senator JOHNSON. I can not tell you the exact date.

Mr. SCHOEPPERLE. Well, then, I will not answer that question, because those advances were made from time to time, on various dates, some before and some perhaps after the oil controversy was settled. I can assure you that the settlement of the oil controversy had absolutely nothing to do with this contract or with these advances.

Senator JOHNSON. From your standpoint we will concede that. But from the other standpoint it might be quite the reverse, and that is why I am interrogating you. You were interested in the revenues of the Republic of Colombia, were you not?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. And very intensely interested?

Mr. SCHOEPPERLE. We were interested in the immediate revenue situation primarily.

Senator JOHNSON. And you have been since according to what I understand from you about this loan?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. And you made your personal investigation so that you would know that situation?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Do you know anything about the royalties that the Colombian Government received for oil?

Mr. SCHOEPPERLE. We have the budgets for the past four or five years, which show on the revenue side certain royalties received from the only oil company that produces any oil in Colombia as I understand it, namely, the Tropical Oil Co. But we have the amounts received from every possible source. So that that information appearing in the budget is only one perhaps of a thousand detailed items.

Senator JOHNSON. Well, you see we are learning more all the time, because I asked you something about the Tropical Oil Co. a while ago and you said you knew nothing.

Mr. SCHOEPPERLE. I did not.

Senator JOHNSON. And the Tropical Oil Co. was paying a royalty to Colombia, wasn't it?

Mr. SCHOEPPERLE. The budget shows it receives royalty from the Tropical Oil Co.

Senator JOHNSON. You were interested, of course, in any receipts that the Colombian Government received.

Mr. SCHOEPPERLE. We were interested in certain measure in thousands of different sources of revenue, including that particular one as well as 999 others.

Senator JOHNSON. Did you know that the royalties were not what President Olaya desired them to be because of the controversies that had arisen concerning petroleum?

Mr. SCHOEPPERLE. We did not know that.

Senator JOHNSON. Did you know that laws were enacted in order that the royalties might subsequently be increased to Colombia?

Mr. SCHOEPPERLE. We did know that.

Senator JOHNSON. Did you make any investigation of that?

Mr. SCHOEPPERLE. We did not.

Senator JOHNSON. Did you know anything about the Texas Co. there, an oil company?

Mr. SCHOEPPERLE. We did not know anything about the Texas Oil Co.

Senator JOHNSON. In the course of your talk with Mr. Rublee, or in the course of his talk with you, did he say anything about the Barco concession?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Not a word?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did you ask him anything about it?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did you know how big the Barco concession was?

Mr. SCHOEPPERLE. No, sir; I did not.

Senator JOHNSON. Have you ever taken the pains to ascertain?

Mr. SCHOEPPERLE. No, sir; I have not.

Senator JOHNSON. Not even though you have how much now as your investment in Colombia?

Mr. SCHOEPPERLE. \$18,600,000.

Senator JOHNSON. Well, of course to us that would be a very considerable sum.

Mr. SCHOEPPERLE. That is a very considerable sum.

Senator JOHNSON. Did it concern you as a very particular sum?

Mr. SCHOEPPERLE. It does concern us as a particularly large sum, even though each one of the banks interested in these advances has a relatively small part.

Senator JOHNSON. So that the amount of it was not insignificant from a financial standpoint to you?

Mr. SCHOEPPERLE. The amount is not insignificant.

Senator JOHNSON. And the sources of revenue became of very great importance?

Mr. SCHOEPPERLE. Not of the oil revenues.

Senator JOHNSON. Not even if they had been very considerable?

Mr. SCHOEPPERLE. But they were not considerable.

Senator JOHNSON. Even if they had been considerable they would not have interested you from what you have said.

Mr. SCHOEPPERLE. The item that interests us is the considerable revenue from the import duties.

Senator JOHNSON. From the import duties alone?

Mr. SCHOEPPERLE. That is the chief item that interests us.

Senator JOHNSON. Are you the fiscal agent of Colombia at the present time?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Have you ever been?

Mr. SCHOEPPERLE. No, sir. We are, however, designated by the Colombian Government as their official bankers in the United States. But we are not their fiscal agents.

Senator JOHNSON. The distinction that you draw is what, please?

Mr. SCHOEPPERLE. The term "fiscal agency" usually refers to the detailed conditions of a contract relating to the payment of money for the services of loans, and we were not involved with the Colombian government in the payment of interest or sinking funds in 1930, so I do not think we had any fiscal agency relationship with them.

Senator JOHNSON. Did Mr. Rublee at any time you saw him talk to you in any way, casually or otherwise, with relation to the oil situation?

Mr. SCHOEPPERLE. Absolutely never; sir.

Senator JOHNSON. Or in relation to oil legislation?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Do you know Mr. Metzger of the Tropical Oil Co.?

Mr. SCHOEPPERLE. I do not. I probably met him.

Senator JOHNSON. I think you said in answer to a question of mine that you did not oppose the advancing of these credits to Colombia; you, personally?

Mr. SCHOEPPERLE. I did not oppose the advancing of these credits to Colombia on a personal basis. When I came back from Colombia I had made an analysis of the situation, but I never opposed the policy of my own concern in respect to its decision on advancing credit out of its own funds to Colombia.

Senator JOHNSON. I did not follow you well there. You say you made no personal objection?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did you make any objection otherwise? What do you mean by saying that you made no personal objection?

Mr. SCHOEPPERLE. Senator, you seem to think that I made some personal objection. Your questions indicate that you think I personally opposed these advances to Colombia, and I just wanted to make it clear that I had personally opposed the making—

Senator JOHNSON. You said you had. I want you to get your record straight. You left out your "not" in the answer that you made. You omitted your "not."

Mr. SCHOEPPERLE. Let us get it straight, then. I personally—

Senator JOHNSON. That is what I am here for.

Mr. SCHOEPPERLE. I personally never opposed the making of these advances by the National City Bank, and/or its associates, to the Republic of Colombia.

Senator JOHNSON. None of them?

Mr. SCHOEPPERLE. None of them.

Senator JOHNSON. At any time?

Mr. SCHOEPPERLE. No. You understand there were many discussions over the status of the 1931 budget.

Senator JOHNSON. Yes; I understood it.

Mr. SCHOEPPERLE. But once we decided to make these loans—

Senator JOHNSON. Let us not talk at cross purposes. Of course I understand and I know that you had many discussions about the budget, but I was under the impression that for a considerable period of time you objected to the remaining advances being made to Colombia. Was that inaccurate?

Mr. SCHOEPPERLE. I should say that was inaccurate; yes.

Senator JOHNSON. You did not delay the advances to Colombia nor yourself interpose any suggestion of delay or opposition?

Mr. SCHOEPPERLE. No; but there were many discussions which gave rise to delay.

Senator JOHNSON. Many discussions which gave rise to delay; but that was because there were certain phases of the matter with which you were not wholly satisfied?

Mr. SCHOEPPERLE. Certain phases of nonfulfillment of the undertakings on the part of the government which were the subject of our discussion, and those gave rise to delay.

Senator JOHNSON. There is no use of our fencing in respect to this.

Mr. SCHOEPPERLE. I do not want to fence with you, Senator. I want you to get it straight. I did not understand your question, though.

Senator JOHNSON. I will endeavor to make it plain to you, then. There were many discussions, you say, concerning the finances of Colombia?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Out of which delay resulted?

Mr. SCHOEPPERLE. Arose; yes.

Senator JOHNSON. I am asking you, did you not interpose some objections to some things that were transpiring that caused that delay?

Mr. SCHOEPPERLE. No; I did not interpose objections that caused delay. I expressed myself as being dissatisfied over the fact that the 1931 budget had not been balanced; but when the time came to let them have the final \$4,000,000—

Senator JOHNSON. There was a delay?

Mr. SCHOEPPERLE. Yes. But I was not the only one who felt that that 1931 budget should be put in balance.

Senator JOHNSON. But you are the only one here; and I am asking you if it is not a fact that you expressed your dissatisfaction, out of which delay occurred?

Mr. SCHOEPPERLE. Yes; that is true.

Senator JOHNSON. That could have been settled five minutes ago.

Mr. SCHOEPPERLE. Well, I am very sorry, Senator.

Senator SHORTRIDGE. You mentined a moment ago that you were concerned immediately with the revenues arising from imports?

Mr. SCHOEPPERLE. Yes, sir.

Senator SHORTRIDGE. Colombia imposed tariff duties on imports?

Mr. SCHOEPPERLE. Yes, sir; that is true. She always has imposed tariff duties on imports, and the import duties constitute a substantial part of her annual income.

Senator SHORTRIDGE. And are the rates rather high, would you say, as compared with those of other countries?

Mr. SCHOEPPERLE. I would not say so, no. The rates have been more recently raised, but at that time they were not excessively high as compared with other countries.

Senator SHORTRIDGE. That is all.

Mr. SCHOEPPERLE. Out of a total budgetary expectation of revenues of 39,000,000 pesos, 20,000,000 pesos represents duties, import duties.

Senator SHORTRIDGE. On various and sundry imports?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. Do you know what the position of the State Department was during the period that this delay occurred, that you have just referred to?

Mr. SCHOEPPERLE. I had no communication whatever with the State Department, but I learned that they felt that some of the arguments I advanced concerning the balancing of the 1931 budget were without basis.

Senator JOHNSON. There was a dissatisfaction on your part which you expressed and which led to delay. The State Department believed that your dissatisfaction was not well grounded?

Mr. SCHOEPPERLE. It was a question of interpretation.

Senator JOHNSON. That is all right; but that was their position, that your objections were not well grounded?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. And the State Department urged that you complete the contract and that the payments be made?

Mr. SCHOEPPERLE. I have no knowledge that the State Department urged anything.

Senator JOHNSON. How did the State Department get into the matter and see that your objections were not well grounded?

Mr. SCHOEPPERLE. Mr. Lancaster, of counsel, advised me that there was a question, in his opinion as legal adviser to us, as to whether we, my associates in the group, were justified in saying that the 1931 budget, having been balanced in the early part of 1931, had to be knocked into balance every day in the week as a condition of our letting them have the last \$4,000,000.

Senator JOHNSON. That is just it, exactly. That was over the last \$4,000,000, was it not?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. You had expressed your opinion that the budget had not been balanced?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. The payment of that last \$4,000,000 was thereupon held up?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. The State Department then came into the picture?

Mr. SCHOEPPERLE. Not with me; with Mr. Lancaster.

Senator JOHNSON. Through Mr. Lancaster. And the State Department was insisting that the \$4,000,000 be paid?

Mr. SCHOEPPERLE. I do not understand that that was insisted by any means.

Senator JOHNSON. What did they do?

Mr. SCHOEPPERLE. I understand that Mr. Lancaster was advised that the point that we were making, that the budget had to be knocked into balance every week, every month, every day, was hardly a justifiable point, considering that it had been balanced in the early part of the year.

Senator JOHNSON. The State Department was saying through Mr. Lancaster that you were wrong. Is that the point?

Mr. SCHOEPPERLE. I do not say that; no.

Senator JOHNSON. What did they say, then?

Mr. SCHOEPPERLE. I have told you what I understood they said. I do not know what they said.

Senator JOHNSON. You understand they said what?

Mr. SCHOEPPERLE. I understand that they said through Mr. Lancaster that the bankers, my associates and myself, were sticking on a technical point when we insisted that the budget should be balanced, rebalanced and rebalanced in accordance with the conditions as they developed.

Senator JOHNSON. The State Department said that. What did you say?

Mr. SCHOEPPERLE. I simply said to counsel, "What do you think about it?" Mr. Lancaster was counsel, among others, for us.

Senator JOHNSON. Will you tell us what the State Department had to do with it?

Mr. SCHOEPPERLE. It did not have anything to do with us.

Senator JOHNSON. Why were they butting into the situation?

Mr. SCHOEPPERLE. I can not understand the question. I do not understand that they were butting into it.

Senator JOHNSON. Why did they go into the situation then?

Mr. SCHOEPPERLE. I do not know.

Senator JOHNSON. Had Mr. Lancaster gone to the State Department to discuss the matter with them?

Mr. SCHOEPPERLE. I do not believe so.

Senator JOHNSON. Do you not know that he was there and did discuss it?

Mr. SCHOEPPERLE. I do not know that; no, sir.

Senator JOHNSON. At any rate, you did learn that the State Department took a position contrary to the position that you took?

Mr. SCHOEPPERLE. I was informed by Mr. Lancaster.

Senator JOHNSON. Did you not ask Mr. Lancaster, who was your own attorney, how in the world was it that the State Department came into this matter?

Mr. SCHOEPPERLE. I do not remember that I asked him that question. The mere fact that he said, "Here is a point of view presented to me by the State Department"—

Senator JOHNSON. Let us take that. Your counsel comes to you—counsel, of course, of ability and standing and in whom you have implicit confidence—this counsel comes to you and says, "The State Department disagrees with your attitude." He initiated the conversation with you in that regard, I assume, of course?

Mr. SCHOEPPERLE. Mr. Lancaster?

Senator JOHNSON. Yes.

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. All right. Do you mean to tell me that you did not say a word to him about "What has the State Department got to do with it?", "What has the State Department done?" or why it was that he dealt with the State Department in reference to a Colombian loan? Did you ask him any such question as that?

Mr. SCHOEPPERLE. I can not say that I can remember exactly the questions that I asked Mr. Lancaster at that time.

Senator JOHNSON. Can you tell me substantially the questions you asked Mr. Lancaster?

Mr. SCHOEPPERLE. I can not say that I can tell you substantially the questions that I asked Mr. Lancaster. I took under considera-

tion the technical point at issue to determine whether there was any equity in the position that we were taking or whether the equity lay on the side of the position that was being represented to us by Mr. Lancaster.

Senator JOHNSON. Did the State Department have anything to do with the transaction?

Mr. SCHOEPPERLE. Absolutely not.

Senator JOHNSON. On no occasion or under no circumstances did the State Department have anything to do with it?

Mr. SCHOEPPERLE. They never did.

Senator JOHNSON. And yet when you came to the advance of the last \$4,000,000 the State Department takes you to task, substantially, for your view of dissatisfaction that was causing delay in the payment of that \$4,000,000?

Mr. SCHOEPPERLE. I would not say they took us to task, Senator.

Senator JOHNSON. We will say, disagreed, then.

Mr. SCHOEPPERLE. They presented a point of view.

Senator JOHNSON. Can you give me any reason why the State Department presented a point of view upon a private loan such as you have described?

Mr. SCHOEPPERLE. No; I can not.

Senator JOHNSON. When was it that Mr. Lancaster informed you that the State Department had come into the picture?

Mr. SCHOEPPERLE. Well, this occurred sometime in June, 1931.

Senator JOHNSON. Some time in June, 1931; and it was on June 30, 1931, that you advanced the \$4,000,000?

Mr. SCHOEPPERLE. That is true.

Senator JOHNSON. So that shortly after Mr. Lancaster told you of the attitude of the State Department, which up to this time you never had heard of in connection with this loan, you advanced the \$4,000,000?

Mr. SCHOEPPERLE. Yes; but that was not the governing consideration in our position.

Senator JOHNSON. It may not have been. The governing consideration in your position, I presume, was that you were convinced you were wrong; is that correct?

Mr. SCHOEPPERLE. The governing consideration was that we had undertaken in a letter of October 25 to advance to the government of Colombia \$4,000,000, and the conditions under which we had undertaken to make that advance were substantially fulfilled.

Senator JOHNSON. But you did not believe so.

Mr. SCHOEPPERLE. They were substantially fulfilled. There were four considerations. There was one consideration of the four, namely, the balancing of the budget—

Senator JOHNSON. And that is a very important one, is it not?

Mr. SCHOEPPERLE. I understand that this question—

Senator JOHNSON. First, was not that a very important one?

Mr. SCHOEPPERLE. Yes; of course.

Senator JOHNSON. Go ahead.

Mr. SCHOEPPERLE. But you understand that before we ever heard of Mr. Lancaster's point of view on this question we were coming very close to the point of advancing this \$4,000,000, and it was not necessarily the intervention of an idea from the State Department that persuaded us to advance the \$4,000,000, considering that the other

three conditions affecting this advance of \$4,000,000 had been substantially fulfilled, and taking into account that the President of Colombia likewise had opposition to face, and that there are a great many difficulties in enforcing a program of economy. We were on the point of concluding, I honestly believe, without anybody's outside intervention—we would have yielded the point and advanced this \$4,000,000 even though the budget had not again been knocked into balance.

Senator JOHNSON. What outside intervention do you refer to?

Mr. SCHOEPPERLE. I think, Senator, that you characterized it at one point as outside intervention.

Senator JOHNSON. It is a perfectly good characterization, but I wanted you yourself to characterize it, and you have. It was outside intervention by the State Department. How did Mr. Lancaster happen to deal with the State Department?

Mr. SCHOEPPERLE. I do not know.

Senator JOHNSON. Nothing was said by you or by him as to why the State Department had intervened?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Not a word of any kind or character?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Are you perfectly certain of that?

Mr. SCHOEPPERLE. It would not strike me as being anything unusual for the State Department to say something about a foreign loan.

Senator JOHNSON. To you?

Mr. SCHOEPPERLE. To us as bankers.

Senator JOHNSON. Had there been anything said by the State Department concerning this loan?

Mr. SCHOEPPERLE. Nothing whatsoever.

Senator JOHNSON. But it would not have been unlikely that they would, you say?

Mr. SCHOEPPERLE. You know from the record that the State Department had knowledge of practically all foreign loans ever made in this country.

Senator JOHNSON. No; I do not know it. Unfortunately, I have not had access to the records of the State Department. I hope before this hearing is concluded to get across; but thus far I have not done it.

You say now that from the records you know they are familiar with those foreign loans; is that correct?

Mr. SCHOEPPERLE. Has it not appeared before this committee, the fact that the issuance of foreign loans is usually the subject of a letter to which the State Department makes a response and says it has no interest in this matter; or there is no objection?

Senator JOHNSON. A purely negative letter.

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Yes; that is before this committee. You are quite right. Was that done in your instance?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Why?

Mr. SCHOEPPERLE. Because we were not making a public issue.

Senator JOHNSON. That is exactly the point. It was a purely a private loan, was it not?

Mr. SCHOEPPERLE. Yes; it was.

Senator JOHNSON. No governmental agency in this country had anything to do with it?

Mr. SCHOEPPERLE. No; I should judge not.

Senator JOHNSON. And from your standpoint no governmental agency had any right in any degree to intervene or interfere with it; is not that correct?

Mr. SCHOEPPERLE. Well, I would not say that. I think governmental agencies have a right to interfere with my conduct. They apparently have certain rights.

Senator JOHNSON. In respect to a private loan that you made?

Mr. SCHOEPPERLE. No; I should think the Government had no right to interfere with a private loan, assuming that it was legal.

Senator JOHNSON. You would consider this legal, would you not?

Mr. SCHOEPPERLE. Certainly.

Senator JOHNSON. Now I am going back again to your counsel coming to you. Did he come to you at your office?

Mr. SCHOEPPERLE. No, sir; he phoned to me.

Senator JOHNSON. Did you go to his office?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Over the phone did he state this to you?

Mr. SCHOEPPERLE. I think he did; yes.

Senator JOHNSON. Did he say how he had acquired the information?

Mr. SCHOEPPERLE. I think he said he had been talking with some one in the State Department. I want to say that he phoned me, but he subsequently came to my office.

Senator JOHNSON. You had a phone conversation, and then he came to the office?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Then you had another conversation, and the matter was of little consequence from your standpoint?

Mr. SCHOEPPERLE. No; it was of considerable consequence.

Senator JOHNSON. Why?

Mr. SCHOEPPERLE. Because here was a matter in which we had undertaken to do certain things and we felt that it was our affair.

Senator JOHNSON. You felt that it was your affair?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. I think you are quite right. I am trying to ascertain, when you thought it was your affair, and you found somebody came into it that had no business in it, why you did not say something or inquire something about it.

Mr. SCHOEPPERLE. I would have resented it very much if it had been a private party or a private business interest; but the Government at Washington came into the thing with a point of view, and it seems to me that that is something to be taken under advisement.

Senator JOHNSON. You are entirely right there. It is an extremely important matter. If the Government of the United States, through its State Department, was interesting itself in a specific private Colombian loan it was a matter of the gravest consequence and importance. You so regarded it, too, I assume, did you not?

Mr. SCHOEPPERLE. I would not say that. It is all in the day's work to have somebody express a point of view and disagree with you.

Senator JOHNSON. For the Government to express a point of view is all in the day's work?

Mr. SCHOEPPERLE. It is not all in the day's work. If the Government, the sovereign power, chooses to do it, it is something to be taken note of.

Senator JOHNSON. Of course it is. How did you take note of it?

Mr. SCHOEPPERLE. We proceeded to discuss the merits and equities of the contention, the point of view, and tried to determine in our own minds whether we were justified in demanding that the Colombian Government knock its budget into balance every day of the week, or whether it was more reasonable to say, "Well, they did comply a few months back with their requirement. Therefore why should we insist on their doing it every day?"

Senator JOHNSON. When you were discussing the matter, who was it that your counsel told you, of the State Department, had communicated with him?

Mr. SCHOEPPERLE. I think it might have been Francis White, but I can not swear to that.

Senator JOHNSON. Do you not know it was Mr. Francis White that your counsel told you had taken the matter up with him?

Mr. SCHOEPPERLE. I would not say that I know it for a fact; no, sir.

Senator JOHNSON. I am not asking you if you know it as a fact; but do you not know as a fact that that is what your counsel told you?

Mr. SCHOEPPERLE. I do not know it as a fact. I can not be definite that Mr. Lancaster said he had been speaking with Francis White. It would have been sufficient for me if he were talking to anybody in the State Department.

Senator JOHNSON. I have no doubt about that, but that is not what I asked you.

When you learned from him that he had been talking to somebody in the State Department, did you learn who initiated the conversation?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Had you or your establishment or anybody interested in this loan asked your counsel to take it up with the State Department?

Mr. SCHOEPPERLE. Certainly not.

Senator JOHNSON. You had on no occasion made any such suggestion or request?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did Mr. Lancaster tell you all that was said by Mr. White or whoever it was that he talked with at that time?

Mr. SCHOEPPERLE. I do not know as to that. He told us the fact that they had a point of view.

Senator JOHNSON. That they had a point of view. Did he tell you anything more about the point of view whatever in relation to the budget?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did he say to you in that conversation that there was any desire upon the part of the State Department to have appropriate petroleum laws enacted in Colombia?

Mr. SCHOEPPERLE. Certainly not.

Senator JOHNSON. Nothing of that sort?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. He simply talked to you concerning the budget. Is there any way in which you can fix the date that you talked to Mr. Lancaster in respect to the matter?

Mr. SCHOEPPERLE. May or June, but I can not be definite.

Senator JOHNSON. You said it was June, before; but it may have been May?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Did you agree with Mr. Lancaster in that conversation that you would forego the objections that you had made up to that time?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did you still insist upon your objections?

Mr. SCHOEPPERLE. We took the point of view under advisement.

Senator JOHNSON. Did you say to him you would take the point of view under advisement?

Mr. SCHOEPPERLE. I do not think that I did.

Senator JOHNSON. Did you?

Mr. SCHOEPPERLE. We did take the point of view under advisement.

Senator JOHNSON. Did you render a decision thereafter?

Mr. SCHOEPPERLE. We did.

Senator JOHNSON. Was it in writing?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. It was just a verbal decision?

Mr. SCHOEPPERLE. Senator, you see there are four American banks and a British and French group involved in this credit operation. So when that point came up we had to take it under advisement as a group. It was not we who could make a decision of that sort. Everybody had his money in this business, and everybody had to be consulted as to whether he would put additional money into it.

Senator JOHNSON. Did you reach a decision within a brief period subsequently?

Mr. SCHOEPPERLE. Yes. We reached a permanent decision within a week or two.

Senator JOHNSON. Did you communicate with your counsel again?

Mr. SCHOEPPERLE. No; I do not know that we communicated with counsel, but I do know that we communicated with our own representatives and told those people down there that we would waive the point and let them have the \$4,000,000.

Senator JOHNSON. Do you know whether or not Mr. Lancaster came down to the State Department subsequently?

Mr. SCHOEPPERLE. I do not know.

Senator JOHNSON. Did you advise Mr. Lancaster of your decision?

Mr. SCHOEPPERLE. We probably did. I can not say we did. We probably did. In any case we would not have advised the State Department of a decision that we were making on a point of that sort. We would advise our own representatives and have them advise the Colombian Government.

Senator JOHNSON. Why would you not advise the State Department?

Mr. SCHOEPPERLE. Because our relations were with the Colombian Government in this matter.

Senator JOHNSON. Of course; but a little while ago when I asked you concerning that, you told me that if the State Department intervened it would be such a matter of importance that you would hesitate concerning it.

Mr. SCHOEPPERLE. Naturally. I do not like the word "intervene." I do not think I used that in the first instance.

Senator JOHNSON. What do you want to say? I will accept any term that you want to use.

Mr. SCHOEPPERLE. They presented a point of view to Mr. Lancaster.

Senator JOHNSON. They presented a point of view without being asked about it and without your having any knowledge of the fact that they were going to do it?

Mr. SCHOEPPERLE. That is true.

Senator JOHNSON. And that point of view you considered of sufficient importance to alter your own point of view?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. You did alter your own point of view, did you not?

Mr. SCHOEPPERLE. I considered the fact that the United States Government, through one of its departments, could make a suggestion or express a point of view, and that is something that has got to be taken into consideration. But I will say this, that the members of this group—and I have said this before—these bankers, having accomplished substantially the three things that they had set out to do in a program of four things in connection with this \$4,000,000 advance, were on the point of waiving this consideration with respect to the Budget, for it came right down to a question as to whether they were going through with the agreement to advance the final \$4,000,000 or not. But this point of view was a very right point of view in one sense of the word. It was a point that very properly should have been considered, and the counsel so advised; that there was, perhaps, in my point of view and that of several of my associates, that we were going to have this Budget balanced every day of the week, an unreasonable condition.

Senator JOHNSON. How long had the loan been held up by that unreasonable point of view that you now suggest?

Mr. SCHOEPPERLE. I would not say over a month.

Senator JOHNSON. About a month, you think. Was there subsequently any report made by Mr. Lancaster to you as to the view of the State Department?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. None at all?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Do you know whether or not he communicated with them in writing or verbally?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. You have no idea?

Mr. SCHOEPPERLE. I have no idea.

Senator JOHNSON. Your best recollection is that he told you that Mr. Francis White was the gentleman who communicated with him?

Mr. SCHOEPPERLE. That is my best recollection.

Senator JOHNSON. Did he mention anybody else that had communicated with him?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. I suppose, Mr. Chairman, you will take a recess at this time?

Senator SHORTRIDGE. Just a moment. Of course I will read this record. But having come in late, I just want to ask you one or two questions.

You are here representing what particular bank?

Mr. SCHOEPPERLE. The National City Co., which is an affiliated institution of the National City Bank.

Senator SHORTRIDGE. And your concern with others entered into an agreement to loan or advance to Colombia how much?

Mr. SCHOEPPERLE. A global amount of \$20,000,000, of which \$3,000,000 was to be advanced by the Bogota (Colombia) branch of the National City Bank, and the balance, \$17,000,000, was to be advanced by this group of which the National City Bank was a member.

Senator SHORTRIDGE. As to the \$4,000,000 concerning which you have just now been interrogated here, that was the final payment making up the sum total of the global amount you have mentioned?

Mr. SCHOEPPERLE. That was the final payment contemplated in this global amount; yes.

Senator SHORTRIDGE. Under the agreement as you interpreted it there were four things to be done, four conditions precedent to be done, before the final advance was made?

Mr. SCHOEPPERLE. Yes.

Senator SHORTRIDGE. And I understood in answer to questions put to you to say that three of them had been complied with?

Mr. SCHOEPPERLE. Yes, substantially.

Senator SHORTRIDGE. But you took the position that the budget had to be balanced every day?

Mr. SCHOEPPERLE. That was my position, and it probably was not a reasonable position.

Senator SHORTRIDGE. You and your associates finally yielded that point?

Mr. SCHOEPPERLE. Yes. I think we would have yielded in any case.

Senator JOHNSON. Let me ask you another question before we recess.

What was your conversation with Mr. Matthews of the State Department?

Mr. SCHOEPPERLE. We discussed with Mr. Matthews a number of points in the Colombian budget, but just what the items were that we discussed I can not remember.

Senator JOHNSON. Do you know when that conversation occurred?

Mr. SCHOEPPERLE. It was a question of whether the budget was in balance, or whether it would be at the end of the year or would not be.

Senator JOHNSON. When was that conversation?

Mr. SCHOEPPERLE. About the middle of May.

Senator JOHNSON. 1930?

Mr. SCHOEPPERLE. No, Senator; 1931.

Senator JOHNSON. I wanted to get it exactly. What date was it?

Mr. SCHOEPPERLE. About the middle of May, 1931.

Senator JOHNSON. The only conversation that you had with Mr. Matthews was about the budget?

Mr. SCHOEPPERLE. That is right.

Senator JOHNSON. How long a conversation did you have with him?

Mr. SCHOEPPERLE. About half an hour.

Senator JOHNSON. President Olaya was there during that period?

Mr. SCHOEPPERLE. Certainly not. He was in Colombia.

Senator JOHNSON. Was anybody else present?

Mr. SCHOEPPERLE. This gentleman [indicating an associate].

Senator JOHNSON. You two gentlemen and Mr. Matthews?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. And you discussed entirely budgetary matters during that period?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Will you tell me why, after taking the point of view of the State Department under advisement, you did not feel that it was your duty to advise the State Department of what conclusion you had reached?

Mr. SCHOEPPERLE. I know we reached the conclusion that whatever decision we made we would convey it direct to our representatives in Colombia.

Senator SHORTRIDGE. That does not answer the question. That is not an answer. The Senator asked you why you did not advise the State Department.

Mr. SCHOEPPERLE. Well, Senator, we did not advise the State Department because we did not want to deal with the Colombian Government through the State Department.

Senator SHORTRIDGE. This was a private loan, you would term it?

Mr. SCHOEPPERLE. Yes.

Senator SHORTRIDGE. No bonds or stock were issued to the public?

Mr. SCHOEPPERLE. None whatever.

Senator SHORTRIDGE. They have not been in default in the payment?

Mr. SCHOEPPERLE. No, sir; it was all paid in advance.

The CHAIRMAN. We will take a recess until 1.30.

(Whereupon, at 12 o'clock noon, a recess was taken until 1.30 o'clock p. m.)

#### AFTER RECESS

The committee resumed at 1.30 p. m. at the expiration of the recess.

The CHAIRMAN. The committee will come to order and we will proceed with the hearing.

#### TESTIMONY OF VICTOR SCHOEPPERLE, VICE PRESIDENT OF NATIONAL CITY CO., NEW YORK, N. Y.—Resumed

(The witness was duly sworn at the morning session by the chairman of the committee.)

Senator JOHNSON. Mr. Schoepperle, did you see the circular that was issued, and I think you said you did, by the Department of Commerce concerning conditions in Colombia?

Mr. SCHOEPPERLE. Yes. I saw that circular several months after it was issued. I saw it no doubt in 1929 or perhaps 1928.

Senator JOHNSON. Did you study it or read it?

Mr. SCHOEPPERLE. I read it.

Senator JOHNSON. With your usual care, I presume?

Mr. SCHOEPPERLE. Well, I won't say that I studied it. I read it.

Senator JOHNSON. I asked, you read it carefully, however?

Mr. SCHOEPPERLE. Yes; I read it.

Senator JOHNSON. Do you recall what conclusions the circular stated, or the particular emanation stated?

Mr. SCHOEPPERLE. In general the circular called attention to the fact that the political subdivisions of Colombia, more particularly the departments and municipalities, were borrowing too freely and had incurred some substantial debts—over too brief a period of time I suppose it might have said.

Senator JOHNSON. What is the Colombian deficit now, please?

Mr. SCHOEPPERLE. The Colombian deficit for the year 1931 was 5,500,000 pesos, the official estimate. There is an item carried over from year to year in the accumulated deficit so called, the accumulated deficit, which would run into about 30,000,000 pesos.

Senator JOHNSON. State it in dollars, approximately.

Mr. SCHOEPPERLE. The peso is almost the exact equivalent of the dollar, in Colombia.

Senator JOHNSON. That is, the deficit now you would put at about 30,000,000 pesos?

Mr. SCHOEPPERLE. That, Senator Johnson, is the accumulation of deficits which have occurred over a number of years, and that deficit is in part covered by the short-time borrowings, including the advances which this banking group has made as well as with us of \$6,000,000 of internal bonds, which was referred to in the testimony this morning.

Senator JOHNSON. Do you know whether or not there are any Colombian Government bonds or securities outstanding other than those you have spoken of?

Mr. SCHOEPPERLE. There are in the American market two issues of Colombian bonds outstanding.

Senator JOHNSON. Aggregating about what?

Mr. SCHOEPPERLE. Aggregating approximately \$57,000,000.

Senator JOHNSON. Did you follow at all the presidential campaign of Doctor Olaya?

Mr. SCHOEPPERLE. I did not follow it closely, but I observed that it was the subject of comment in the New York Times, that Doctor Olaya was a liberal president running on a reform ticket, and that he would take the air line down to Colombia, and that he made a whirlwind campaign, and that he made quite an impression upon the country's economic and commercial circles.

Senator JOHNSON. It made quite an impression upon the voters.

Mr. SCHOEPPERLE. Upon the Colombian electorate, yes.

Senator JOHNSON. The particular individuals you have mentioned in connection with the financial affairs of the country, they did not succeed in making him President, did they?

Mr. SCHOEPPERLE. He was elected by the electorate.

Senator JOHNSON. Apparently?

Mr. SCHOEPPERLE. Well, according to such accounts as I read he was elected by popular vote.

Senator JOHNSON. I should imagine so.

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. Do you recall anything that he said during the progress of that campaign?

Mr. SCHOEPPERLE. I do not recall anything specifically that he said.

Senator JOHNSON. Let me read you just a line from one of his speeches made during his presidential campaign, in which he said:

Out of \$60,000,000 borrowed in this country only \$18,000,000 were properly invested, the balance being filtered out.

Do you recall anything of that sort?

Mr. SCHOEPPERLE. I do not recall that statement.

Senator JOHNSON. Do you know whether or not it was accurate?

Mr. SCHOEPPERLE. I do not know whether that statement is accurate. I do not know what he meant by "filtered."

Senator JOHNSON. I would not attempt to translate it for you, because I think I might not succeed either. Returning now to the visit of Mr. Matthews to New York. Do you know what he came up there for?

Mr. SCHOEPPERLE. No; I do not know what he came to New York specifically for.

Senator JOHNSON. You know what he talked to you about, of course?

Mr. SCHOEPPERLE. I know what he talked to me about.

Senator JOHNSON. And that was what?

Mr. SCHOEPPERLE. That was the fact that the Colombian budget for 1931, although it was not in balance, could not, according to the expectations of the banking point of view, be kept in balance from day to day and from month to month.

Senator JOHNSON. He made it his business to suggest, therefore, that the objections you had be waived?

Mr. SCHOEPPERLE. I do not recall that he suggested that we waive our objections. But I do recall that we had a detailed discussion over the items of this budget.

Senator JOHNSON. With Mr. Matthews?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. In your office?

Mr. SCHOEPPERLE. In my office; yes.

Senator JOHNSON. Do you know whether or not he came from the State Department to discuss the matter with you?

Mr. SCHOEPPERLE. I do not know whether he came from the State Department for the purpose of discussing this matter with us, but I knew he was in some capacity from the State Department or was affiliated or connected with the State Department.

Senator JOHNSON. Didn't he state the purpose of his errand at any time?

Mr. SCHOEPPERLE. I can not say that he came with a declaration as to the exact purpose of his visit to me, but it was evident from the course which the conversation took that he held the view that this Colombian budget was in better position than we thought it was in, and that there were certain detailed items of it about which perhaps our information was not entirely in line with the situation.

Senator JOHNSON. Pardon me. Do you wish us to understand that Mr. Matthews simply walked into your office and began to talk about the budget of Colombia without any introductory remarks or without any suggestion as to why he was there or when he came?

Mr. SCHOEPPERLE. I think I knew perfectly well that he came from the State Department, and that he was affiliated with it.

Senator JOHNSON. Didn't he say so?

Mr. SCHOEPPERLE. I suppose he did.

Senator JOHNSON. Didn't he say he came to talk to you about the making of loans and the withdrawal of objections and the ending of delay in regard to it?

Mr. SCHOEPPERLE. I am sure he did not say that

Senator JOHNSON. Wasn't the purpose of it to facilitate, to hasten the lending of the money?

Mr. SCHOEPPERLE. I do not know what his purpose was, but it was quite evident that he was there for the purpose of discussing a question which we had up with the Colombian Government, as to whether this budget was balanced or not.

Senator JOHNSON. Why did he say he came?

Mr. SCHOEPPERLE. I do not remember that he said why he came.

Senator JOHNSON. And you did not inquire?

Mr. SCHOEPPERLE. Well, when some one comes from the Department of State to call on me I have to see him.

Senator JOHNSON. I am not questioning that. But the perfectly natural inquiry would be, Why did he come?

Mr. SCHOEPPERLE. It is not my custom, when people come to see me to ask them why they come. I think that develops. The discussion develops, you know, why they come.

Senator JOHNSON. Well, take your position. The discussion developed why he came.

Mr. SCHOEPPERLE. The discussion developed along the lines of the composition of the budget for 1931.

Senator JOHNSON. No. You said a moment ago that the discussion developed why he came. Is that correct?

Mr. SCHOEPPERLE. The discussion developed while he was there.

Senator JOHNSON. Why he came?

Mr. SCHOEPPERLE. As to why he came.

Senator JOHNSON. All right. Then you knew that he came from the State Department. You knew that he came for the purpose of discussing with you the objection that you had as to the budget existing in Colombia, didn't you?

Mr. SCHOEPPERLE. That is true. He discussed with me—

Senator JOHNSON (interposing). Exactly. Now, you knew that he was endeavoring to remove the objection that you had made.

Mr. SCHOEPPERLE. I do not remember that he told me he was endeavoring to remove the objection we had made.

Senator JOHNSON. Did he endeavor to do that, or didn't he?

Mr. SCHOEPPERLE. I think that was a proper inference for me to draw.

Senator JOHNSON. All right. And did you draw it?

Mr. SCHOEPPERLE. Yes. But I did not pay any great attention to the question of what the State Department wanted to say to us. They may have a point of view, and we have—

Senator JOHNSON (interposing). You have just told me that if a man from the State Department came to see you you could do nothing else but see him.

Mr. SCHOEPPERLE. That is right.

Senator JOHNSON. And, of course, listen; I would not say with rapt attention; but, at least with attention to his views.

Mr. SCHOEPPERLE. That is true.

Senator JOHNSON. All right. Now, if any State Department official came to talk to you about a view that you had expressed, a view that was preventing the immediate consummation of the credit to Colombia, you knew then that he was there for the purpose of hastening that consummation, didn't you?

Mr. SCHOEPPERLE. Of removing the objection that we felt existed.

Senator JOHNSON. And so that there would be no further delay in making this particular credit to Colombia?

Mr. SCHOEPPERLE. Well, I would not say that he said that.

Senator JOHNSON. Well, that was ultimately the conclusion respecting the conversation, wasn't it?

Mr. SCHOEPPERLE. That was the inference I drew.

Senator JOHNSON. All right. Now, did you make any inquiry of Mr. Matthews as to why he was interested in the loan?

Mr. SCHOEPPERLE. No.

Senator JOHNSON. Did you make any inquiry of Mr. Matthews as to why he wanted to hasten the payment of the \$4,000,000?

Mr. SCHOEPPERLE. No. I did not need to ask him.

Senator JOHNSON. Did you know?

Mr. SCHOEPPERLE. Yes; I knew.

Senator JOHNSON. You knew that he wanted to hasten it and you knew why?

Mr. SCHOEPPERLE. I drew the inference that the objection he was trying to remove would facilitate this advance. I knew why the \$4,000,000 was wanted. It was because the Colombian Government needed it for its current expenses.

Senator JOHNSON. Was this the first time that you had met Mr. Matthews?

Mr. SCHOEPPERLE. It was the first time I had ever seen him so far as I remember. I cannot say that I had ever seen him before.

Senator JOHNSON. I take it this was before you talked with your counsel about the proposition, wasn't it?

Mr. SCHOEPPERLE. No, this was after Mr. Lancaster had informed me that this was the point of view expressed by the State Department.

Senator JOHNSON. Then chronologically we may say that first your counsel took the matter up with you, first by telephone as you stated this morning, and then subsequently he called at your office for the purpose of discussing the matter because the Secretary of State's office had taken it up with him. And then subsequently Mr. Matthews in New York as a representative of the State Department took up the same subject with you, endeavoring to remove your objection and facilitate the making of the loan.

Mr. SCHOEPPERLE. I would say that is all right, except that I do not think he endeavored to facilitate the making of the loan.

Senator JOHNSON. What would you say he was there for? To delay it?

Mr. SCHOEPPERLE. No. He was there to remove the point of the objection.

Senator JOHNSON. And that would facilitate the making of the loan?

Mr. SCHOEPPERLE. Well—

Senator JOHNSON (continuing). Well, the removal of the objection, of course, would facilitate the making of the loan, wouldn't it?

Mr. SCHOEPPERLE. Well, I do not think it is fair, Senator Johnson, to say that the State Department's point of view was the governing factor of our making this final loan of \$4,000,000. We were already committed to it.

Senator JOHNSON. You may say anything you desire in respect of the matter. I am not attempting to do otherwise than get the facts. But I confess, if you will pardon me, without any criticism of you at all, it is a little bit difficult to get the facts from you. That is all I wish. I want nothing but exactly what has transpired and what exactly was in your mind. In the beginning of this discussion we were far removed from the State Department. Now we have reached the point so far as the State Department is concerned where your counsel came to you because the State Department had taken the matter up with him, and then where a member of the State Department goes from the city of Washington to the city of New York and in your office takes the matter up with you again in behalf of the State Department to have you remove the objection that you had had to the loan. That is a correct statement of the situation chronologically, isn't it?

Mr. SCHOEPPERLE. Yes; that is a correct statement.

Senator JOHNSON. All right, sir.

Mr. SCHOEPPERLE. I judged by inference that he wanted to remove the objection we were making that retarded the advance of that last loan.

Senator JOHNSON. You judged that by inference?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. Didn't he ask you about withdrawing your objection?

Mr. SCHOEPPERLE. No.

Senator JOHNSON. He just argued the question with you?

Mr. SCHOEPPERLE. He argued the question of this budget with us.

Senator JOHNSON. And argued with you that you were wrong?

Mr. SCHOEPPERLE. Yes; I think he argued that our point of view taken with reference to this balancing of the budget was wrong.

Senator JOHNSON. And the purpose of his argument, didn't he state, was to have the objection removed?

Mr. SCHOEPPERLE. No.

Senator JOHNSON. And to have the loan made?

Mr. SCHOEPPERLE. No. There is one point—

Senator JOHNSON (interposing). All right.

Mr. SCHOEPPERLE. You made the statement that officially the State Department came to see us. I did not understand that Mr. Matthews was an official of the State Department. I do not know what his capacity is.

Senator JOHNSON. Well, I think he is a gentleman who is in the Latin-American Division.

Mr. SCHOEPPERLE. I think Mr. Matthews would testify that he did not, even if he might have attempted to remove the objection, make any recommendation to me with reference to the immediate advancement of this loan.

Senator JOHNSON. Are you endeavoring to say to me that he came there in his individual and personal capacity and not from the office of the Secretary of State?

Mr. SCHOEPPERLE. No; I am not.

Senator JOHNSON. He came there as a representative of the Secretary of State's office, didn't he?

Mr. SCHOEPPERLE. So I understood, that he came as a representative of the State Department.

Senator JOHNSON. And as the representative of the State Department he argued the particular proposition with you?

Mr. SCHOEPPERLE. That is true.

Senator JOHNSON. All right. There is no room for any disagreement between us on these facts. I am not seeking in any way to have you say something that you may not think to be accurate. But what I do seek is to get exactly what transpired, and that is the only purpose of this examination, of course.

Mr. SCHOEPPERLE. May I interrupt you just a moment, Senator Johnson?

Senator JOHNSON. Certainly, sir.

Mr. SCHOEPPERLE. Mr. Lancaster informs me that there was a time, I do not know when, when he spoke to me about the Barco concession.

Senator JOHNSON. Yes.

Mr. SCHOEPPERLE. And I want to report here that I have no recollection of his speaking to me about the Barco concession. The second point that I want to make is that in this morning's testimony there was reference made to francs and pounds sterling.

Senator JOHNSON. Reference made to what?

Mr. SCHOEPPERLE. To foreign currencies.

Senator JOHNSON. You made that reference yourself, didn't you?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. Nobody else made it.

Mr. SCHOEPPERLE. That is right. I referred to certain amounts in francs and sterling, and I gave the names of bankers who are participating in the Colombian group, but I omitted to state that Lazard Freres in Paris and Lazard Bros. & Co. in London are equally interested as bankers in this group. There is a British interest and a French interest who have participation like that of the rest of us in these group credits.

Senator JOHNSON. Do you know what the Garth syndicate was?

Mr. SCHOEPPERLE. I beg pardon?

Senator JOHNSON. Did you ever hear of the Carib syndicate, I will ask you first?

Mr. SCHOEPPERLE. I have seen that name in the quotations of stocks, but I do not know what the Carib syndicate is.

Senator JOHNSON. Do you know who owned the other portion of the Gulf Oil Co. matter?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Do you know who owned the other portion of the Barco syndicate?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Do you know that 75 per cent of it was owned by the Mellon interest and 25 per cent of it by J. P. Morgan & Co.?

Mr. SCHOEPPERLE. No, sir; I do not know that.

Senator JOHNSON. You have no knowledge of that?

Mr. SCHOEPPERLE. I had no knowledge of it.

Senator JOHNSON. I have in my hand a dispatch from Bogota dated March 4th last which appeared in the Herald Tribune, and the beginning of it is this:

The Minister of Industries to-day signed a contract whereby the famous Barco petroleum concession will be operated for the next 50 years by the Colombian Petroleum Co., composed of United States interests. His signature ended five years' litigation and international discussion, which in 1923 and 1927 saw the frequent interchange of memoranda between Washington and Bogota. The Government's oil company owns three-quarters of the Colombian Petroleum Co. syndicate and the Carib syndicate, reputedly controlled by a New York banking house, owns the other quarter.

Do you recall ever having seen that publication?

Mr. SCHOEPPERLE. No, I do not recall reading that.

Senator JOHNSON. Do you know the facts that are stated in it?

Mr. SCHOEPPERLE. No; I do not know the facts stated in it. I know that the Barco concession has been the subject of controversy for a number of years. That is one fact that seems to be stated there that I knew.

Senator JOHNSON. Yes. Well, you did know about that?

Mr. SCHOEPPERLE. Yes. But I did not know anything about what New York banking house has an interest in it and do not know to-day.

Senator JOHNSON. Is the Morgan house interested in the National City?

Mr. SCHOEPPERLE. No, sir; except as individual partners of the Morgan house might be stockholders of the National City Bank.

Senator JOHNSON. Is any member of the Morgan house on the directorate of National City?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Now, having chronologically fixed the discussions which resulted in at least removing your objection, or assisting in removing your objection, can you recall any other discussions that you had in regard to the objections that you had made to the budget of Colombia?

Mr. SCHOEPPERLE. I recall a great many discussions that we had among the individual members of the group.

Senator JOHNSON. Can you recall any others that you had with anybody that represented the State Department?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did you write to the State Department after your talk with Mr. Matthews?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did you give him any conclusion as to what you would do?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Did he ask that you advise anybody in respect to that?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Do you know whether or not your counsel subsequently advised the State Department of your position?

Mr. SCHOEPPERLE. I do not know.

Senator JOHNSON. You mean you do not know whether he did or not?

Mr. SCHOEPPERLE. I do not know what he did with reference to the State Department.

Senator JOHNSON. Did you ever make any inquiry?

Mr. SCHOEPPERLE. No.

Senator JOHNSON. Did you feel any indignation that the State Department was taking an interest in your private loan?

Mr. SCHOEPPERLE. I felt that it was business between us and the Republic of Colombia.

Senator JOHNSON. Yes. And did you express that indignation to Mr. Matthews?

Mr. SCHOEPPERLE. Yes, I did.

Senator JOHNSON. What did you say to Mr. Matthews in that regard? You see we are getting along now and recalling more of the conversations.

Mr. SCHOEPPERLE. It is very difficult for me to say what I said.

Senator JOHNSON. Well, in substance what did you say? I do not expect you to give me the exact words, of course.

Mr. SCHOEPPERLE. But in substance I said this: That if these conditions, having been substantially fulfilled, the banking group waived the condition with respect to the balancing of the budget, that certainly the opportunity would arise at a later date for the banking group, if it chose, to insist on this point, as to the balancing of the budget; that particularly that time would arise with the maturing of these credits. That is to say, that when these credits matured and fell due the bankers in their relations with the obligor had a perfect right to stipulate the conditions, if they chose, as to a renewal of those loans. Now, in substance that is about what I said to Matthews, as I recall.

Senator JOHNSON. I think you have forgotten the question I asked. I asked you if you had expressed your indignation to Mr. Matthews that the State Department was interfering or talking to you concerning your private loan, and you said you did.

Mr. SCHOEPPERLE. I beg pardon, but I did not say I expressed indignation.

Senator JOHNSON. I think if you will look at the record you will see you did. But if you did not intend it you have the right to correct that statement.

Mr. SCHOEPPERLE. Well, I did not, but I will let the record stand for what it is.

Senator SHORTRIDGE. Did you say you did not? You know whether you expressed dissent, or indignation, or disapproval, or resented it.

Mr. SCHOEPPERLE. I felt myself that it was a question between us and the Colombian Government.

Senator JOHNSON. All right. And you expressed that to Mr. Matthews, didn't you?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. And what did he say?

Mr. SCHOEPPERLE. I can not tell you what he said.

Senator JOHNSON. That would be a very important part of the conversation, wouldn't it? Here you sat with a representative of the State Department whom you felt you had to receive, as you have stated here, and to whom you had to talk because you felt he repre-

sented the State Department. You expressed to him either your resentment or indignation or however you may wish to characterize it, that he was there talking to you upon that subject. Now, what did he say in response? I mean when you thus expressed your indignation or resentment.

Mr. SCHOEPPERLE. He certainly did not make any response that indicated to me that the State Department was making any request of us.

Senator JOHNSON. What did you suppose he was doing there? That he just came to make an ordinary casual call upon you?

Mr. SCHOEPPERLE. He was there to discuss the 1931 Budget.

Senator JOHNSON. Of course, and he discussed it with you.

Mr. SCHOEPPERLE. And by inference to remove the objections we were making.

Senator JOHNSON. You felt resentment that he should be there interfering at all, and you expressed that resentment. Now, he must have made some response as to why he was there. That is what I want to know.

Mr. SCHOEPPERLE. Certainly Mr. Matthews did not come to speak in a capacity that would necessitate his telling us why he came there.

Senator JOHNSON. What was that?

Mr. SCHOEPPERLE. Mr. Matthews to my way of thinking did not come there for the purpose of making a request on the bankers.

Senator JOHNSON. What did he come there for?

Mr. SCHOEPPERLE. He came there to discuss these controversial details of the Budget.

Senator JOHNSON. For what purpose?

Mr. SCHOEPPERLE. Inferentially for the purpose of removing the objection we were raising.

Senator JOHNSON. And having the loan made.

Mr. SCHOEPPERLE. That is a conclusion which you draw. He did not so state.

Senator JOHNSON. Well, you drew it, didn't you?

Mr. SCHOEPPERLE. I drew it, yes.

Senator JOHNSON. Why, of course. And then drawing that conclusion you resented that he was being there at all, and you expressed that resentment to him. Now, he must have stated to you something like this: "Why, I am here because the State Department wishes me to come here."

Mr. SCHOEPPERLE. Oh, no. He did not say that.

Senator JOHNSON. Or, I am here because this loan is of international importance. He must have said something.

Mr. SCHOEPPERLE. He did not say anything of the kind.

Senator JOHNSON. He did not say anything?

Mr. SCHOEPPERLE. He said a great many things about the details of this budget. And I remember when we parted there were certain details which either we did not have or he did not have and which we agreed to exchange, as to details of the budget.

Senator JOHNSON. All that may be so, but —

Mr. SCHOEPPERLE (continuing). This is pretty far down the line. Mr. Matthews was not there in the capacity of Secretary of State or Under Secretary, nor would any of the officials of the State Department be there, in my opinion.

Senator JOHNSON. Why did you talk to him?

Mr. SCHOEPPERLE. My dear sir, a man to come from the State Department—

Senator JOHNSON (interposing). That is it exactly. So he was there in some official capacity, and he must have told you why and what he was endeavoring to do in that official capacity. Now, that is a perfectly obvious conclusion.

Mr. SCHOEPPERLE. He was endeavoring to get us to take a different point of view on this budget matter.

Senator JOHNSON. And you can not tell me whether he said why he was endeavoring to do it, or why he was there, and he never disclosed to you the reason for his being there?

Mr. SCHOEPPERLE. I do not think he ever stated the ultimate objective, as you seem to infer.

Senator JOHNSON. You do not have any idea of the ultimate objective, as you term it?

Mr. SCHOEPPERLE. I knew that we were being asked to advance this \$4,000,000 to the Colombian Government.

Senator JOHNSON. And that was what the State Department was down there for, asking you to advance it?

Mr. SCHOEPPERLE. Mr. Matthews did not ask us to advance it.

Senator JOHNSON. He was just talking to you about the independent figures of the budget?

Mr. SCHOEPPERLE. He was talking about the obstructive material, namely, the budget.

Senator JOHNSON. About the obstructive material of the budget?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. All right.

Senator SHORTRIDGE. It is not necessary for me to assist my colleague in developing a conversation, but let me ask you a simple question. You have told us all about Mr. Matthews coming there, and the conversation, and Senator Johnson has asked you repeatedly whether you expressed dissent or resentment or indignation or disapproval of his coming. Now let me ask you: Did you say anything expressive of your mind as to why he came, in the nature of dissent or disapproval or objection? Now, you know whether you did or not. You might have felt it, but did you say anything? Tell us what you did say.

Mr. SCHOEPPERLE. I said this, that on the maturity of these credits, assuming that we let them have this \$4,000,000 and waived the point of obstruction in the matter of the budget, that we would have another opportunity when the question of renewing these credits arose and we came back to it again on the question of renewal of the loan.

Senator SHORTRIDGE. My question was, what did you say?

Mr. SCHOEPPERLE. Senator, I wish I had a transcript of what I said.

Senator SHORTRIDGE. If I were to break into your office you might say to me: Well, Senator, I do not think you have any concern with this matter. This is a private matter. You might say that. Didn't you say something to Mr. Matthews as to whether or not you thought it was proper for him to come to you to discuss this matter.

Mr. SCHOEPPERLE. I do not think I said anything as to why it was or was not proper for him to discuss this matter with us, but I indicated that I thought it was a matter for us entirely, between the bankers and the Colombian Government. And to that extent I must have indicated that I resented his approaching us on the subject.

Senator JOHNSON. Exactly. And indicating it thus he must have made some reply. Isn't that obvious to you?

Mr. SCHOEPPERLE. Yes, and I swear to goodness I do not know what reply he made.

Senator JOHNSON. Now, that is an answer. That is the first time you have answered me in that regard. You say you do not know.

Mr. SCHOEPPERLE. Well, I do not like to sit here and say I do not know when you want me as far as possible to recall the situation.

Senator JOHNSON. I do want you to recall as far as possible the situation. But I do want you to say if you do not know that you do not know. Now, had you ever met Mr. Matthews before?

Mr. SCHOEPPERLE. No, I think not.

Senator JOHNSON. That was the first time you had ever met him?

Mr. SCHOEPPERLE. In my opinion that was the first time I had ever seen him.

Senator JOHNSON. And there was no explanation that you can recall, no statement of the purpose of his business, except to talk about items of the budget of Colombia. That is correct, is it?

Mr. SCHOEPPERLE. I think that is correct. (Mr. Schoepperle resuming.) The reason I say it was the first time I ever met Mr. Matthews is this: When I was in Bogota Mr. Matthews might have been at the legation, when I paid my respects at the legation, which is customary for foreign citizens to do. But whether I met him there or not I do not know. I think this occasion when he called on me was the first time I had ever seen him. He will know better than I would.

Senator JOHNSON. Well, I trust we will hear from him before we conclude. You gave me the date, and pardon me for asking a second time, when he was there, but what was it.

Mr. SCHOEPPERLE. I gave you approximately the middle of May, 1931.

Senator JOHNSON. That is as near as you can fix the time, the middle of May of 1931?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. Did you make any note of the conversation?

Mr. SCHOEPPERLE. No.

Senator JOHNSON. Did you advise any of the members of your bank that Mr. Matthews had been there?

Mr. SCHOEPPERLE. No. I advised Mr. Winston, our counsel, that there had been a conversation.

Senator JOHNSON. You simply advised your counsel in relation to the conversation?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. And nobody else?

Mr. SCHOEPPERLE. Nobody else. I think I might say on this point, that while it appears to be more important to you, it did not impress me as being of any great importance at the time. There were a great many discussions, arguments over technical points in the develop-

ment of this Colombian business which we took under advisement and discussed at length with the members of this banking group, and this particular conversation did not seem to me at the time to have any more significance than numerous conversations about any number of things, the comptroller's bill, the railway law, the organic budget law, or any other of our various considerations with which we were concerned.

Senator JOHNSON. The fact that he came from the State Department did not impress you at all?

Mr. SCHOEPPERLE. Not particularly.

Senator JOHNSON. Are you certain of that?

Mr. SCHOEPPERLE. I am certain of that. It did not impress me that Matthews had called on me.

Senator JOHNSON. The fact that he came from the State Department was exactly as if you had had a discussion of a like nature with somebody else not connected officially with the Government, is that it?

Mr. SCHOEPPERLE. At the time his appearance in my office did not strike me as being anything of great significance, as particularly important to me to make a note of it.

Senator JOHNSON. It was sufficiently important, however, for you to feel some resentment at his coming in there.

Mr. SCHOEPPERLE. Well, as I have already said, I expressed some reservations on the general question as to whether the bankers did not have a right to confer with the Colombian Government on a matter on which they were the two parties at interest.

Senator JOHNSON. And this was the first conversation that you had had with anybody representing the State Department, or the first communication of any sort with the State Department in respect to your credits?

Mr. SCHOEPPERLE. This was the first and the only and the last communication or discussion or contact I have ever had with any member of the State Department, officially or unofficially, here in Washington or in New York, on this subject.

Senator JOHNSON. And it made no impression on you at all particularly?

Mr. SCHOEPPERLE. Not at all.

Senator JOHNSON. Have you the contract there which you read this morning?

Mr. SCHOEPPERLE. Here it is.

Senator JOHNSON. I notice in the first subdivision it refers to the fact that you are making this tentative contract pursuant to a letter from Doctor Olaya to the National City Bank. Do you recall that?

Mr. SCHOEPPERLE. I do not recall that, but we undoubtedly have it if it is referred to.

Senator JOHNSON. Do you follow me?

Mr. SCHOEPPERLE. May I see it for a moment?

Senator JOHNSON. Certainly. I am looking at the first paragraph, subdivision (a).

Mr. SCHOEPPERLE. Oh. That is attached to the contract right there.

Senator JOHNSON. All right. I wanted to find out where it was.

Mr. SCHOEPPERLE. There it is.

Senator JOHNSON. Of course you are a member of the Federal reserve?

Mr. SCHOEPPERLE. The National City Bank is a member of the Federal reserve.

Senator JOHNSON. Well, do you still maintain your objection to putting this contract in the record?

Mr. SCHOEPPERLE. Senator Johnson, I do; and for the reason that Doctor Olaya himself at the time of the execution of that tentative agreement asked that it should be kept confidential. I think if you will read it you will find nothing in there beyond what I have already told you it contained.

Senator JOHNSON. I think that is substantially correct, and I see no reason why the agreement, as an agreement, should not be put into the record.

Mr. SCHOEPPERLE. I would agree with that view if Doctor Olaya would agree with it.

Senator JOHNSON. Did you ask Doctor Olaya's consent to give the information respecting it that you gave here this morning?

Mr. SCHOEPPERLE. I did not.

Senator JOHNSON. All right. If you recited the terms of the agreement yourself without asking his permission, what logical conclusion is there for asserting that the agreement itself should not be put in the record?

Mr. SCHOEPPERLE. Well, of course, Senator Johnson, I merely maintain that in view of the fact that the committee has everything that is in that letter there is no point in putting it on a public record.

Senator JOHNSON. We may have everything in the record. At the same time with an inability here to study it with any degree of care I should like to put it in the record. Mr. Chairman, I ask the right to insert it in the record.

The CHAIRMAN. Senator Johnson, there is a rule in the Senate itself that documents coming from foreign countries are not to be put in the record. I do not know whether that would apply to this hearing or not.

Senator JOHNSON. This is not a document coming from a foreign country. This is a document made in the city of New York.

The CHAIRMAN. But a foreign country is involved.

Senator JOHNSON. A foreign country is a debtor under the document.

The CHAIRMAN. Certainly.

Senator JOHNSON. That does not impinge the rule made about putting in any utterances of somebody from a foreign government.

Senator SHORTRIDGE. You have the document there, Senator Johnson?

Senator JOHNSON. Yes.

Senator SHORTRIDGE. We will consider it.

Senator JOHNSON. I offer the agreement in evidence here.

A NEWSPAPER MAN. He wants to keep it out.

Senator SHORTRIDGE. What was that? Now, gentlemen of the press, that is not a proper statement at all. Senator Smoot is not disposed to keep it out, and neither am I. I simply said to Senator Johnson under the conditions that have arisen here that the committee would consider it. I am inclined to think, according to my own view, that it should go into the record, in view of the fact that

Senator Johnson has said that the witness has given the sum and substance of it.

Senator JOHNSON. I think in fairness to the witness I should say that while I have made only a hasty examination of it I believe he has stated with fair accuracy the terms of the instrument.

The CHAIRMAN. I have no objection whatever to its going into the record. But I did want to call attention to the matter, so that if it came up on the floor of the Senate it might be understood that I called attention to the rule of the Senate.

Senator SHORTRIDGE. It seems to me if this document was regarded as confidential the witness would have declined to give its substance when inquired of concerning it. But having given, as it is claimed, the sum and substance of the written document, I can see no objection to its going into the record. But my remark a moment ago was made for this purpose, that if there be any rule or regulation of the Senate in respect of documents of this character we might well look into it a little further before incorporating it in the printed record. That was all.

Mr. SCHOEPPERLE. I should like to say that I am perfectly willing to rely on the considered judgment of you gentlemen provided you will keep in mind the delicacy of the situation. Here is a request by the president of a sovereign republic.

Senator SHORTRIDGE. Precisely.

Mr. SCHOEPPERLE. That has entered upon a tentative agreement. Now the question is, is it going to embarrass him. If you gentlemen think there is no possibility that you might embarrass him by the publication of this agreement, then I leave it in your hands and you will act accordingly.

Senator JOHNSON. You have already published it, and you seem to overlook that fact. That objection, it seems to me, would come with better grace if you had refused to divulge at all the contents of the document. But it does not come, it seems to me, now either logically or legally or with good grace.

Mr. SCHOEPPERLE. Well, I am very sorry if you think it does not come with good grace. But as far as the logic of the thing is concerned, if you already know what is in it why publish it?

Senator JOHNSON. It is a part of the record here. That is the reason.

Senator SHORTRIDGE. You are referring to the letter of June 30, 1930, are you?

Mr. SCHOEPPERLE. Yes, sir.

Senator SHORTRIDGE. Addressed to the president-elect of the Colombian Republic.

Mr. SCHOEPPERLE. Yes, sir. But I am perfectly willing to defer to the considered judgment of the committee.

Senator JOHNSON. Very well. We will turn to another matter. Do you in your establishment obtain the messages of President Olaya to his congress?

Mr. SCHOEPPERLE. No; we do not obtain them.

Senator JOHNSON. Do you follow them?

Mr. SCHOEPPERLE. No; we do not follow them.

Senator JOHNSON. Do you personally read them?

Mr. SCHOEPPERLE. I do not personally read them.

Senator JOHNSON. Are you familiar with any of them?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. If I were to read you any extracts from them would you recognize them? Or is it a fact that you have never followed any of them at all?

Mr. SCHOEPPERLE. It is a fact that I have not followed the addresses of President Olaya to the congress. There is the possibility that our representatives in Bogota may have translated some excerpts from such addresses, and may have called them to my attention, but I myself do not make it a practice to read those addresses.

Senator JOHNSON. Have you any excerpts with you that have been transmitted to you by your representative in Bogota?

Mr. SCHOEPPERLE. I would say no.

Senator JOHNSON. Have you your letters written to your representative in Bogota, have you them here?

Mr. SCHOEPPERLE. Yes, sir.

Senator JOHNSON. Do they refer exclusively to the matters stated in this tentative agreement?

Mr. SCHOEPPERLE. They refer exclusively to the administration of the contracts that arose out of this tentative agreement. And occasionally they may give us some information of a general character as to what is going on in Colombia.

Senator JOHNSON. Can you turn to those that give you the general character of what is going on in Colombia?

Mr. SCHOEPPERLE. It would take a great deal of time, Senator Johnson, but we can turn to all the letters.

Senator JOHNSON. I will devote the necessary time to it if you will leave the letters here with the committee reporter. Will you do that?

Mr. SCHOEPPERLE. I will be glad to do that.

Senator JOHNSON. All right. If you will leave the letters to your representative in Bogota with the committee reporter we will not attempt to put them in evidence until I call to the committee's attention any that may seem to be appropriate to the particular inquiry. Now, did Mr. Rublee say anything to you about the extension of further credit to Colombia?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. What was it?

Mr. SCHOEPPERLE. Mr. Rublee said something about the extension of this \$4,000,000 credit that was the subject of this discussion.

Senator JOHNSON. What did he say?

Mr. SCHOEPPERLE. He said in general terms that the President of the Republic of Colombia had carried out substantially the conditions that the bankers had set forth, and that we should not in his opinion seek, or that we were not well advised to seek any technicalities considering that we had already invested \$12,000,000 in Colombia, and that it was unwise to incur the resentment of the Colombian Republic by refusing to go through with the original agreement and as amended.

Senator JOHNSON. About when was it that he made that statement to you?

Mr. SCHOEPPERLE. It must have been along about April of 1931, in the early stages where the questions were arising as to whether the conditions affecting the final \$4,000,000 had been fulfilled.

Senator JOHNSON. Mr. Rublee was protesting too against your position, is that correct?

Mr. SCHOEPPERLE. I would not say that he was protesting. I would say he was giving a point of view based upon his personal knowledge and observation of the situation. He was in no position to protest. Mr. Rublee became at some point in the proceedings, and I do not know just where, the financial representative of the Republic of Colombia in New York.

Senator JOHNSON. We will omit the verb. But he came to you to express his opinion on the attitude that you had taken?

Mr. SCHOEPPERLE. Shortly after his return from Colombia, which was reported in the newspapers, he came to us and gave us a general outline of conditions in Colombia as he had understood them when he left that country which had been only a month or six weeks before.

Senator JOHNSON. At that time were you insisting upon your interpretation of the budgetary requirements?

Mr. SCHOEPPERLE. I can not say the chronology of this thing is quite as clear in my mind as I would like it to be, but I was undoubtedly at that time developing in my own mind the question as to whether there had been a substantial fulfillment of those conditions that affected the payment of that last credit advance of \$4,000,000.

Senator JOHNSON. And he was endeavoring to convince you of the error of your position?

Mr. SCHOEPPERLE. I do not think, Senator Johnson, he was trying to convince me of the error of my position. But I think he was trying to get me to see that from a practical point of view, even assuming that I might be right on my technical reservations, that in the last analysis for us to fail to go through with the engagement, to advance this final \$4,000,000, might prejudice the position of the money we had already advanced.

Senator JOHNSON. He was not endeavoring to show you the error of your view, but simply endeavoring to demonstrate that you were wrong, is that it?

Mr. SCHOEPPERLE. (The witness smiled but did not answer.)

Senator JOHNSON. I think we are all entitled to smile at that point. Now, you see how by constant iteration and reiteration we are gradually getting a chronological picture of the situation.

Mr. SCHOEPPERLE. I think we are getting a great deal of emphasis on a certain aspect of the situation, but it certainly never occurred to me from the day-to-day connection I had with it.

Senator JOHNSON. But it is beginning to occur to you now?

Mr. SCHOEPPERLE. I think it is being overemphasized, if you will excuse my saying it.

Senator JOHNSON. We will start first with Mr. Rublee coming to you when you are insisting upon a particular view, and he states that you are in error in relation to that view, or words to that effect.

Mr. SCHOEPPERLE. Not in error.

Senator JOHNSON. Not in error, but just wrong. We will not quarrel over terms.

Mr. SCHOEPPERLE. It was a question of wisdom.

Senator JOHNSON. That is to say, wise. That you were unwise in the particular matter. He concedes that to you in a conversation of some length, does he?

Mr. SCHOEPPERLE. We had lunch together.

Senator JOHNSON. And you maintained your position as best you could, I presume, by argument in relation to the matter?

Mr. SCHOEPPERLE. Yes. I have always been pretty stubborn about my ideas.

Senator JOHNSON. Well, I was not going to agree with you on that, so far as that is concerned, but if you wish me to I will. But at any rate, Mr. Rublee did not convince you?

Mr. SCHOEPPERLE. He did not convince me.

Senator JOHNSON. Then you have your counsel coming, who seeks to convince you next. He comes with a message from the State Department. Then you have Mr. Matthews, who comes directly in person from the State Department to convince you.

Mr. SCHOEPPERLE. He did not come to convince me, from anything he said.

Senator JOHNSON. We will not say he came to convince you, because you have just stated that you possess qualifications that prevent you from being convinced at times. But he came to talk to you upon a subject and to impress you with the view he had and that obviously the State Department had. Do you recall in the beginning of the examination this morning that I asked you, and asked you very plainly more than once, whether you were not objecting to the payment of these last credits, and that you denied it quite positively? Now you see we are covering a period of some months, and we have three distinguished gentlemen now who have argued the question with you and who were endeavoring to convince you all the way through—well, I will say, convince you that your budgetary requirements were not such as commended themselves to them. All right, we have all that, you see. And then next you think that all of you were reaching the conclusion in relation to these budgetary requirements, still the loan of \$4,000,000 was made on the 30th day of June, 1931.

Mr. SCHOEPPERLE. There was one statement, however, in that question—

Senator JOHNSON (interposing). All right, sir; state whatever you have to say.

Mr. SCHOEPPERLE. To which I do not agree.

Senator JOHNSON. State it.

Mr. SCHOEPPERLE. I do not admit that I objected to these loans being made.

Senator JOHNSON. You did not object. You simply did not consent. Is that it?

Mr. SCHOEPPERLE. I made the point that there should be a more substantial fulfillment of those conditions.

Senator JOHNSON. Well now, seriously speaking, the Colombian Government wanted the money.

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. And you were declining to pay over the money. You were declining to pay it over because you thought there were certain requirements of the agreement that had not been fulfilled.

Mr. SCHOEPPERLE. That is so.

Senator JOHNSON. That lasted over a period of some months, didn't it?

Mr. SCHOEPPERLE. Well, I don't know what you mean by "that." In respect of the loan I began to perceive that the conditions were not fulfilled to my satisfaction, and as the weeks passed by I was never convinced that they had been fulfilled. I knew that we were engaged and committed to pay that \$4,000,000, but I wanted to get as complete fulfillment as I could before I consented to its being paid.

Senator JOHNSON. But you did not pay it for a considerable time while the Colombian Government was requesting it?

Mr. SCHOEPPERLE. I would not say for a considerable period of time, but weeks.

Senator JOHNSON. I said that a considerable period of time elapsed and you did not pay and would not make the payment of the \$4,000,000.

Mr. SCHOEPPERLE. It was not a considerable period of time, Senator.

Senator SHORTRIDGE. Oh, why all that, for it takes too long.

Senator JOHNSON. It was some weeks, you said.

Mr. SCHOEPPERLE. It was some time; more than weeks.

Senator JOHNSON. According to your own testimony there was the time of March, April, May, and June. So it was a matter of months that the loan was held up, and then suddenly on the 30th day of June you met the requirements and paid the \$4,000,000, but not until there had been two applications by the State Department of the United States made to you, one through your counsel and one from a representative of the State Department who came to see you, Mr. Matthews.

Mr. SCHOEPPERLE. I did not say on the application.

Senator JOHNSON. Well, conclude what you please. He called and argued the case with you, and you felt resentment that he came, and then on the 30th day of June, after his visit, after all these things had occurred that I just described, then the \$4,000,000 loan was made. Now I ask you, was there any more reason, any more convincing reason to your judgment in respect to the budgetary requirements that led to the decision to make that loan on the 30th day of June, 1931? Was there any other reason?

Mr. SCHOEPPERLE. Absolutely no other reason.

Senator JOHNSON. No other reason at all?

Mr. SCHOEPPERLE. No.

Senator JOHNSON. You say to me now that there were no other reasons stated to you as to why that loan should be made?

Mr. SCHOEPPERLE. There were none.

Senator JOHNSON. There was nothing said as to the international relations, I mean to you?

Mr. SCHOEPPERLE. To me, no.

Senator JOHNSON. What was that?

Mr. SCHOEPPERLE. To me, absolutely no.

Senator JOHNSON. There was nothing said to you about the necessity for doing this thing in order that Colombia might do certain things in return?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. Nothing of the kind?

Mr. SCHOEPPERLE. No, sir.

Senator JOHNSON. And no question of the relationship between the two Governments, the maintenance of friendliness and the like by the making of this loan at the specific and particular time when it was desired?

Mr. SCHOEPPERLE. There were no representations made to me of that kind.

Senator JOHNSON. Don't ring the changes on representations. There were no statements made or no words conveyed to you by anybody or under any circumstances. That is correct, is it?

Mr. SCHOEPPERLE. That is correct.

Senator JOHNSON. I noticed you hesitated. Were you doubtful about it?

Mr. SCHOEPPERLE. I wanted to think about that.

Senator JOHNSON. That is good.

Senator SHORTRIDGE. Was there any suggestion that a failure on your part to go forward and make this loan might cause some friction as between the Governments?

Mr. SCHOEPPERLE. No, sir.

Senator SHORTRIDGE. With some sort of ill will or bad feeling toward us?

Mr. SCHOEPPERLE. There was no suggestion about friction between the Governments, Senator. There was this: Mr. Rublee took the view that having got in with \$12,000,000 it would hurt us very seriously to refuse to go through with that engagement sticking, as I was sticking, on a technical point.

Senator SHORTRIDGE. Would hurt whom?

Mr. SCHOEPPERLE. That it would hurt us.

Senator SHORTRIDGE. Meaning whom?

Mr. SCHOEPPERLE. With the Colombian Government, that it would hurt us as a banking group.

Senator SHORTRIDGE. But there was nothing said as to its having this effect: That if you did not go forward it might cause some ill will or bad feeling on the part of the Colombian Government toward the United States. There was nothing of that sort?

Mr. SCHOEPPERLE. I would not consider that relevant with respect to us.

Senator SHORTRIDGE. I do not know whether it is relevant or not. My question to you is, and it is repetitious, whether there was anything said to the effect that a failure on your part to waive the objections which you entertained, and then whether any failure on the part of your banking concern to go forward and make this additional advance, would cause any bad feeling as between the governments.

Mr. SCHOEPPERLE. No. Nothing was said to me on that subject.

Senator SHORTRIDGE. All right.

Senator JOHNSON. You knew the policy of the State Department in reference to foreign loans, did you not? That it was purely negative?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. And that if the matter of a foreign loan were submitted to the State Department the most it would do would be to say that it had no objection?

Mr. SCHOEPPERLE. Yes, I knew that.

Senator JOHNSON. You were familiar with that?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. And I presume in the course of the conduct of your business that matter had arisen a number of times, in advising the State Department, I mean, isn't that correct?

Mr. SCHOEPPERLE. Yes, in respect to things other than Colombia.

Senator JOHNSON. Oh yes. Now, don't you think it was rather strange with your knowledge of the State Department that a representative of the State Department would come down to see you about a particular loan, to argue with you concerning its details?

Mr. SCHOEPPERLE. Well, he had a right to present a point of view.

Senator JOHNSON. Oh, no. That is not my point. Any man has a right to present a point of view if anybody will listen to him. I grant you that. That is not the point. You knew the policy, and that the policy was a negative one. And suddenly you see that transformed into a positive policy on the part of the State Department, and they come to you about a private loan and not a governmental loan. Didn't it seem strange to you, and didn't you remark upon it?

Mr. SCHOEPPERLE. Well now, Senator, look at it this way—

Senator SHORTRIDGE (interposing). Oh, can't you answer the question?

Senator JOHNSON. First answer the question, and then make any explanation.

Mr. SCHOEPPERLE. No, it did not seem strange.

Senator JOHNSON. Now, if you want to make an explanation that is your right.

Mr. SCHOEPPERLE. In all foreign loans it has been customary for the State Department to express a sort of negative acquiescence. It did not occur to me to make the distinction, between a negative and a positive policy even though I did not make any application in connection with our Colombian credits for the negative acquiescence of the State Department. In view of the fact that the State Department had always made a negative acquiescence on any loans that were submitted to it did not occur to me to make a differentiation, and to say that it was awfully strange when it had a different point of view on the matter of foreign credits.

Our custom was to think of the State Department as a department of the Government, and when they notified that they had a point of view it did not strike me as being particularly strange, although it may be now that I perceive that there was a differentiation, that if I had thought the matter of any great importance I would have conceived of it as unusual.

Senator JOHNSON. Do I understand you to say that if the State Department interviews you with respect to a loan, you consider it of practically no importance?

Mr. SCHOEPPERLE. I said that I considered it of no importance with respect to our relations on this particular private credit where the banking group was having direct dealings with the Republic of Colombia.

Senator JOHNSON. Have you any interest in any loans to Peru?

Mr. SCHOEPPERLE. With Peru?

Senator JOHNSON. Yes.

Mr. SCHOEPPERLE. The National City Co. is associated with a group of bankers headed by J. & W. Seligman & Co. in connection with the issuance of two loans known as the Peruvian National Loans.

Senator JOHNSON. Those loans aggregate what?

Mr. SCHOEPPERLE. They aggregate \$85,000,000, those two loans.

Senator JOHNSON. Was your participation in those loans of any great extent?

Mr. SCHOEPPERLE. Our participation in those loans was this. We had a participation in those loans of 20 per cent or I would say we had previously a participation in a Peruvian loan that the American people had originated and sold known as the tobacco loan, but in which we had no part except to be invited in at a late hour as participants. But I speak now, in answer to your question, that we had a definite relationship with Seligman and a group in connection with those two Peruvian national loans.

Senator JOHNSON. The participation in the tobacco loan, which was the first of the loans, as I understand it, was how great?

Mr. SCHOEPPERLE. I think it was about 20 per cent.

Senator JOHNSON. Were not you and the Seligman firm together as the original sponsors of the loan?

Mr. SCHOEPPERLE. We were together as the original sponsors of the loan.

Senator JOHNSON. Take the other two loans that were made, aggregating \$85,000,000?

Mr. SCHOEPPERLE. I beg your pardon. It is those two loans as to which we are the original sponsors, aggregating \$85,000,000. We were not, strictly speaking, an original sponsor in the tobacco loan.

Senator JOHNSON. But in the two later loans you were the original sponsor with Seligman & Co.?

Mr. SCHOEPPERLE. That is true.

Senator JOHNSON. Were you familiar with the commissions that were paid for the obtaining of those loans?

Mr. SCHOEPPERLE. We were familiar with the fact that the Seligman firm were beholden to the firm of F. J. Lisman & Co. for a commission in connection with the fact that Lisman & Co. had brought these loans to Seligman.

Senator JOHNSON. Did you know to whom individually that commission was paid?

Mr. SCHOEPPERLE. We did not know to whom it was intended to be paid.

Senator JOHNSON. Did you know the extent of the commission?

Mr. SCHOEPPERLE. We did not know the extent of the commission until the end of November, about 10 days before the loan was issued to the public.

Senator JOHNSON. Did you then learn the obligation that existed upon the part of Seligman & Co. to Mr. Lisman?

Mr. SCHOEPPERLE. We did not. I beg your pardon.

Senator JOHNSON. I said, did you then learn the obligation that existed on the part of Seligman & Co. to Lisman?

Mr. SCHOEPPERLE. We knew prior to that of an obligation of Seligman & Co. to Lisman, but the extent of that we only learned in November.

Senator JOHNSON. What was the extent of it?

Mr. SCHOEPPERLE. One-half per cent.

Senator JOHNSON. Was any accounting of it ever made to you subsequently?

Mr. SCHOEPPERLE. There was subsequently, on March 1, 1928, an accounting made in which it appeared that a commission of half a per cent had been paid, but there was no accounting showing to whom it was paid.

Senator JOHNSON. Did you know?

Mr. SCHOEPPERLE. We did not know.

Senator JOHNSON. When did you learn?

Mr. SCHOEPPERLE. There came to us rumors emanating from our branch in Lima, Peru, that part of this commission had been paid to the son of the President.

Senator JOHNSON. When did that come to you?

Mr. SCHOEPPERLE. It must have come to us about February or March, shortly before this accounting came in.

Senator JOHNSON. Had the loan been disposed of then?

Mr. SCHOEPPERLE. It had been sold.

Senator JOHNSON. To the American people?

Mr. SCHOEPPERLE. Yes.

Senator JOHNSON. You had none of the securities on hand then?

Mr. SCHOEPPERLE. As to that I could not say, Senator. We may have had some those securities on hand; but my recollection is that the issue was sold, and sold very readily.

Senator JOHNSON. What did you do about it when you learned that a part of the commission had been paid to the son of the President of Peru?

Mr. SCHOEPPERLE. I communicated with Seligman as to whether this was the fact.

Senator JOHNSON. Then what?

Mr. SCHOEPPERLE. Do you want to know what they said?

Senator JOHNSON. I want to know what you did.

Mr. SCHOEPPERLE. I did not do anything. They told us it was true in part, that there was a group to whom Lisman & Co. were beholden for this commission and among them was this son of the President.

Senator JOHNSON. Did you learn how much had been paid to the son?

Mr. SCHOEPPERLE. We knew that one half per cent had been paid, but we did not know how much had been paid to the son of the president.

Senator JOHNSON. But when you had your conversation with Seligman Co. did you learn?

Mr. SCHOEPPERLE. No.

Senator JOHNSON. Did you inquire?

Mr. SCHOEPPERLE. I do not know that I inquired. We understood it was a substantial part that had been paid to the son of the president.

Senator JOHNSON. What did you do about it?

Mr. SCHOEPPERLE. There was not anything to do about it, Senator.

Senator JOHNSON. What did you say about it—anything?

Mr. SCHOEPPERLE. I said this, that we had no knowledge of this state of affairs before we entered upon that business.

Senator JOHNSON. That is the extent of your connection with it, your knowledge of it, and what you did in respect to it?

Mr. SCHOEPPERLE. Of course.

Senator SHORTRIDGE. What is the answer?

Senator JOHNSON. He said, "Of course."

Senator SHORTRIDGE. Of course what?

Senator JOHNSON. That was the extent of his knowledge.

Mr. SCHOEPPERLE. In other words, I have told you all I know about that commission.

Senator JOHNSON. Is that an established thing in Latin America?

Mr. SCHOEPPERLE. I would say it is not the usual thing in Latin America. On the basis of our own originations it certainly is not the usual thing.

Senator JOHNSON. Do you know of any other cases?

Mr. SCHOEPPERLE. I do not.

Senator JOHNSON. That is all, so far as I am concerned.

The CHAIRMAN. Was that a higher commission than what has been paid on other South American loans?

Mr. SCHOEPPERLE. I have no actual experience of commissions having been paid on South American loans, because we never paid any; but I would say as those things go, my impression would be that it was a rather substantial commission.

The CHAIRMAN. The usual commission?

Mr. SCHOEPPERLE. No; I would not say it was usual, because I have no experience that would lead me to think that was usual at all.

Senator SHORTRIDGE. That one-half of 1 per cent—on what sum was that, Mr. Schoepperle?

Mr. SCHOEPPERLE. On the parity of the sum, the issue of bonds. It was paid on the nominal value of the bonds.

Senator SHORTRIDGE. One-half of 1 per cent in this instance made up what sum total?

Mr. SCHOEPPERLE. One-half of 1 per cent in this instance would be \$250,000 on this transaction.

The CHAIRMAN. Fifty cents on the hundred.

Senator SHORTRIDGE. And that was paid to whom?

Mr. SCHOEPPERLE. The major part of it, according to my later information, was paid to the son of the President of Peru.

Senator SHORTRIDGE. That is all.

The CHAIRMAN. If that is all, the witness may be excused.

(Witness excused.)

**TESTIMONY OF W. W. LANCASTER, MEMBER OF THE FIRM OF SHEARMAN & STERLING, COUNSEL, NATIONAL CITY BANK, NEW YORK, N. Y.**

(The witness was duly sworn by the chairman of the committee.)

Mr. LANCASTER. In reference to those files, Senator Johnson, they are our working files, and I would suggest that—

The CHAIRMAN. We can not hear what you are saying, Mr. Lancaster.

Are you associated with the National City Bank?

Mr. LANCASTER. I am a member of the firm of Shearman & Sterling, who are the counsel for the National City Bank.

I was saying to Senator Johnson something that was really off the record, so to speak.

The CHAIRMAN. Everything must be on the record.

Mr. LANCASTER. Mr. Schoepperle said he would leave here certain files in reference to the Colombian loan. Those files are our working files, and I wanted to know if it would be possible to leave those files

in the office of Mr. Ascola at the disposition of Senator Johnson to look at and examine—

The CHAIRMAN. You mean, at the disposition of the committee?

Mr. LANCASTER. Yes; to pick out as promptly as may be what may be relevant here and put it in evidence, so that the file as a whole will be speedily again at our disposal, as it is something that we are constantly in contact with.

The CHAIRMAN. I do not think there is any objection to that. If we want them to go into the record they will be given to the Printing Office first.

Do you think it is necessary to have it go into the record, Senator?

Senator JOHNSON. I want to look them over, and if there is anything that I deem of consequence to the inquiry I will submit it to the chairman.

The CHAIRMAN. And if you do, I will see that it goes into the record. Otherwise we will keep the records until the hearings are closed, and then we will return them to the National City Co.

Mr. LANCASTER. That is, you will retain a portion of the record, not the file as a whole?

The CHAIRMAN. We will return you the file as a whole, because we will have copies of it in the record if there is anything that we desire.

Mr. LANCASTER. Thank you.

The CHAIRMAN. You will receive the records just as you present them to the committee.

Mr. LANCASTER. Thank you.

Senator JOHNSON. Will you please state your name and residence?

Mr. LANCASTER. W. W. Lancaster. Mr. residence is Manhasset, Long Island, N. Y.

Senator JOHNSON. Your occupation, if you please?

Mr. LANCASTER. My occupation is that of lawyer, and I am a member of the firm of Shearman & Sterling, who are the counsel for the National City Bank and affiliated companies.

Senator JOHNSON. How long have you lived in New York, Mr. Lancaster?

Mr. LANCASTER. Thirty years.

Senator JOHNSON. Forty years?

Mr. LANCASTER. Thirty years.

Senator JOHNSON. For how long a period have you represented the National City Bank?

Mr. LANCASTER. Ten years, I think.

Senator JOHNSON. Are you familiar, Mr. Lancaster, generally speaking, with the dealings of the National City Bank with the Republic of Colombia?

Mr. LANCASTER. Not generally speaking! no, I am not. I have had casual contact with those affairs, but it is outside of my usual field of operations, in that I advise the National City Bank on general matters, including foreign matters; but this being a City Co. matter and not a City Bank matter in many of its aspects, it has been, as I say, a little outside of my field of operations.

Senator JOHNSON. It has been testified here that some communication came to you from the State Department which subsequently you took up with the gentleman who has just preceded you upon the stand. Is that the fact?

Mr. LANCASTER. That is a fact.

Senator JOHNSON. About when was that, Mr. Lancaster?

Mr. LANCASTER. About the middle of May, 1931.

Senator JOHNSON. How did the communication come to you, from the State Department?

Mr. LANCASTER. It is my recollection that it came from Mr. Francis White.

Senator JOHNSON. In writing or verbally?

Mr. LANCASTER. Verbally.

Senator JOHNSON. Did he meet you at your office?

Mr. LANCASTER. No, I, as of counsel for the National City Bank, have a long standing acquaintance with many members of the State Department, and in one of my contacts with Mr. Francis White—I do not recall whether it was in relation to Colombia or not—the matter of this loan was mentioned to me; and that was about the middle of May.

Senator JOHNSON. Do you know in what connection it was mentioned?

Mr. LANCASTER. I do not recall how it happened to be mentioned. I know we usually proceed more or less at random through the republics of South America; and in the course of our conversation we touched upon Colombia. It is my recollection that he said that he had had President Olaya's views presented to him through Minister Caffery, and that the last presentation of those views bore upon this question of the balancing of the budget. I think that is the way it came up.

Senator JOHNSON. Do you know whether or not the question arose in that conversation as to the payment of the last \$4,000,000 that was to be paid by the National City Bank?

Mr. LANCASTER. It did come up.

Senator JOHNSON. Is it not the fact that there had been some delay in the payment, and that was the reason it was taken up with you?

Mr. LANCASTER. He informed me that President Olaya complained that there had been delay in making the last payment of the \$4,000,000 of the \$16,000,000, and that the reason, as presented by President Olaya, was that the bankers claimed that the budget had not been balanced. President Olaya said that the budget had been balanced and that it was absurd to insist that the budget should be balanced weekly or daily, as he construed the position of the bankers to be.

Senator JOHNSON. Anything else?

Mr. LANCASTER. No.

Senator JOHNSON. Did he make any request of you in respect to the matter at that time?

Mr. LANCASTER. I said that I would look into the matter and see what was the position of the bankers, and I followed that with a conversation with Mr. Shoeppele.

Senator JOHNSON. Subsequent to that conversation did you communicate with Mr. White?

Mr. LANCASTER. Yes.

Senator JOHNSON. How?

Mr. LANCASTER. I think, by telephone.

Senator JOHNSON. And what did you explain to Mr. White?

Mr. LANCASTER. I explained to Mr. White that the bankers felt that perhaps a daily or even weekly balance of the budget was unreasonable, but that it should be kept substantially balanced at intervals of less than a year.

Senator JOHNSON. Was there any suggestion by Mr. White that the loan be hurried?

Mr. LANCASTER. If I remember correctly, Mr. White said that President Olaya expressed great dissatisfaction at the bankers delaying payment of the \$4,000,000 on a technicality, and he thought the bankers were seeking a technicality upon which they could base refusal to go forward with the balance of the loan.

Senator JOHNSON. Did Mr. White make any suggestion or request?

Mr. LANCASTER. I do not recall exactly. The result of my conversation was to endeavor to bring together the views of the bankers, who were my clients, and the views of President Olaya. There was a question as to whether some of the items in the budget had been increased over the previous year; if they had been increased, whether those increases might not be cut out. There was also a question of whether items which were carried over in substantially the same amount from the previous year's budget might not be substantially reduced; the insistence being all the time that the budget should balance.

Senator JOHNSON. Did Mr. White suggest any other reasons why the money should be paid or the loans made?

Mr. LANCASTER. Mr. White said that President Olaya, according to their advices, insisted that he had done everything in substance that the Americans required, and they ought not to seek to avoid the performance of their contract by refusing to go forward because of a technicality.

Senator JOHNSON. Did he state what it was that the Americans had required that President Olaya should do?

Mr. LANCASTER. This being in May, I think that in December, 1930, he had balanced his budget, making about a one-third cut from the previous year, if I recall correctly. He had put through legislation in reference to customs. He had set up an independent railroad administration. He had issued a decree establishing reforms in the controller's office which the bankers had requested, which, although perhaps not so good as an act of Congress, was a substantial performance. And he had caused to be passed a law limiting the amount of the indebtedness that might be incurred by the Colombian Republic.

I think that is, in substance, what he had done.

Senator JOHNSON. Were there any other things to be done by President Olaya that you know of in Colombia?

Mr. LANCASTER. None, so far as we were concerned.

Senator JOHNSON. I am not asking that; but were there other things to be done by President Olaya?

Mr. LANCASTER. He claimed that he had done everything; and I do not recall anything in any connection that had not been done.

Senator JOHNSON. Do you recall at any time in any conversation any knowledge that came to you in respect to petroleum laws?

Mr. LANCASTER. I do not recall anything except what I have seen in the public press in reference to the petroleum laws. President

Olaya was stated to say that among the things that he had done at the request of the Americans was to settle the controversy in reference to the Barco concession.

Senator JOHNSON. Do you recall as well that a new code or a new law relating to mineral deposits and petroleum was passed by the Congress at his instance?

Mr. LANCASTER. No; I do not recall that.

Senator JOHNSON. But at the request of the Americans he had settled the Barco concession?

Mr. LANCASTER. Yes.

Senator JOHNSON. Do you know what it was?

Mr. LANCASTER. I did not know until this morning.

Senator JOHNSON. You do know now?

Mr. LANCASTER. Well, listening to Mr. Schoepperle's testimony.

Senator JOHNSON. You had no knowledge of it until this morning?

Mr. LANCASTER. I knew it by name, and I had spoken to Mr. Schoepperle about it, and Mr. Schoepperle said he did not care a damn about the Barco concession; it was of no interest to them.

Senator JOHNSON. But Olaya said that he had settled it?

Mr. LANCASTER. Yes.

Senator JOHNSON. Let me see if I am accurate in saying that he said that at the instance of the American Government he had settled the Barco concession.

Mr. LANCASTER. At the behest of the Americans he had settled it.

Senator JOHNSON. At the behest of the Americans he had settled the Barco concession?

Mr. LANCASTER. Yes.

Senator JOHNSON. About when was that; do you know?

Mr. LANCASTER. I should judge it was during the month of May, 1931. You are asking me whether my conversation took place at that time, or when he had made the settlement?

Senator JOHNSON. When he had made the settlement.

Mr. LANCASTER. That I do not know.

Senator JOHNSON. But your conversation was in May, you say, 1931?

Mr. LANCASTER. Yes, sir.

Senator JOHNSON. Did Mr. White mention the Barco concession?

Mr. LANCASTER. He mentioned that President Olaya stated that to be one of the things that he had done at the behest of the Americans.

Senator JOHNSON. Exactly. But you recall nothing that was said as to any petroleum laws that had been passed?

Mr. LANCASTER. No, sir; I do not.

Senator JOHNSON. Did you make any inquiry of Mr. White at that time, when he said that President Olaya stated that he had settled the Barco concession at the request of the Americans, as to what the concession was or what Olaya had done?

Mr. LANCASTER. I did not. My next step was to ascertain by telephone from Mr. Schoepperle whether we were interested in the Barco concession; and the answer I have already given.

Senator JOHNSON. That is, that Mr. Schoepperle persisted in his view in respect to the Budget and said he did not care a damn about the Barco concession?

Mr. LANCASTER. That is correct.

Senator JOHNSON. And that was some time in May or June, 1931?

Mr. LANCASTER. I think that was probably in May, 1931.

Senator JOHNSON. Probably in May. Is there anything else that you recall that Mr. White said to you at that time as to the desirability of making the credit at the earliest possible moment?

Mr. LANCASTER. I have no present recollection on that point.

Senator JOHNSON. Did you see anybody else at the State Department besides Mr. White?

Mr. LANCASTER. Yes; I saw the Secretary of State.

Senator JOHNSON. I do not mean, casually, but in relation to this matter.

Mr. LANCASTER. I spoke to the Secretary of State or, rather, discussed with the Secretary of State this matter.

Senator JOHNSON. Do you recall the Secretary of State suggesting a view in respect to the matter?

Mr. LANCASTER. It is my recollection that he asked me to look into the matter and see what merit there was in the disagreement between the parties here.

Senator JOHNSON. I presume, of course, that that was in regard to the loan, and that was mentioned between you?

Mr. LANCASTER. That was in regard to the loan.

Senator JOHNSON. And the desirability of the loan being made in accordance with the original agreement by your institution?

Mr. LANCASTER. That was the case.

Senator JOHNSON. Do you recall Mr. White saying to you that you ought not to look at this thing from the point of view of a bank examiner?

Mr. LANCASTER. I do not.

Senator JOHNSON. Did somebody at the State Department make that remark to you?

Mr. LANCASTER. Not as far as I can recall in this connection; but that statement has been made in reference to another matter.

Senator JOHNSON. In relation to another matter, by the State Department?

Mr. LANCASTER. By somebody in the State Department.

Senator JOHNSON. Relating to some foreign loan?

Mr. LANCASTER. Some foreign matter.

Senator JOHNSON. Some foreign loan?

Mr. LANCASTER. I think so, but I do not associate it with this transaction at all, and I only remember it because it amused me.

Senator JOHNSON. I think you repeated it to somebody and it was suggested to me. That was the reason I asked you about it.

Mr. LANCASTER. Oh, yes.

Senator JOHNSON. And the information that was stated to me was that it was the Secretary of State himself, or Mr. White, that made the statement to you, that you ought not to look at one of these loans like a bank examiner.

Mr. LANCASTER. That I do not recall.

Senator JOHNSON. Do you recall who it was that made that statement to you?

Mr. LANCASTER. No, sir; I do not.

Senator JOHNSON. Somebody there did?

Mr. LANCASTER. Yes.

Senator JOHNSON. After you had had your conversation with Mr. White you went back to New York, I assume, and took it up with Mr. Schoepperle?

Mr. LANCASTER. Yes.

Senator JOHNSON. Did you suggest to him the desirability of making the loan?

Mr. LANCASTER. I suggested to him the desirability of considering very carefully whether his position or, rather, the position of his group, was well taken.

Senator JOHNSON. Did you repeat to him the conversation that you had had, that President Olaya said he had done everything in reference to the balancing of the budget, in reference to the laws that had been passed, in reference to settling the Barco concession for Americans, and the like, and that he was entitled to his loan?

Mr. LANCASTER. It is my recollection that I stated President Olaya's position to Mr. Schoepperle as it had been reported to me.

Senator JOHNSON. And in detail, I assume, of course?

Mr. LANCASTER. Yes.

Senator JOHNSON. Mr. Schoepperle remained obdurate, did he not, in relation to his position on the budget?

Mr. LANCASTER. Mr. Schoepperle's attitude in relation to the matter was obdurate, but open to a further study of the situation.

Senator JOHNSON. All right, sir. Subsequently did you see Mr. Matthews when he went up to New York to see Mr. Schopperle about the matter?

Mr. LANCASTER. Yes; I saw Mr. Matthews, I think, at the time when he first saw Mr. Schoepperle.

Senator JOHNSON. What was he doing in connection with it?

Mr. LANCASTER. Mr. Matthews went to Mr. Schoepperle to explain to Mr. Schoepperle what he knew personally about the various items in the budget, and to take up with President Olaya, or through the American Minister with President Olaya, the question of whether these items could be reduced or, in some instances, eliminated.

Senator JOHNSON. Was there anything further than that that Mr. Matthews took up, so far as you know?

Mr. LANCASTER. No, sir.

Senator JOHNSON. But Mr. Matthews, from the Secretary of State's office, came to New York. He interviewed you first, did he, before he saw Mr. Schoepperle?

Mr. LANCASTER. I think he communicated with me, and I went down and introduced him to Mr. Schoepperle. That is my recollection.

Senator JOHNSON. And he, representing the Secretary of State, was endeavoring to smooth out the situation or solve the situation so that the loan should be made as originally agreed?

Mr. LANCASTER. He was endeavoring to ascertain from the bankers what items in the budget they thought should be reduced or eliminated.

Senator JOHNSON. He was endeavoring to ascertain that for what purpose?

Mr. LANCASTER. For the purpose of communicating to President Olaya, through the American minister, the bankers' views.

Senator JOHNSON. On just what theory was a member of the Secretary's force going to New York, concerned with the President

of Colombia and taking up with him bankers' matters that were budgetary in character? Do you know? Did he state?

Mr. LANCASTER. He did not state; no.

Senator JOHNSON. If you will pardon me, there must have been some specific reason why the Secretary of State's office should concern itself with a private loan of that sort. Was not that conveyed to you at any time?

Mr. LANCASTER. Yes.

Senator JOHNSON. What was it?

Mr. LANCASTER. The Department of State felt that they were acting, among other things, as a commercial agent for the American people, and that if they could do anything which would open new markets for American products and aid in any way the turning again of the wheels of industry, they wanted to do it, and they were prepared to accept the bankers' view that Colombia offered a promising field for this purpose.

Senator JOHNSON. Was that expressed by Mr. Matthews?

Mr. LANCASTER. That was not expressed by Mr. Matthews.

Senator JOHNSON. Who expressed it?

Mr. LANCASTER. Either Mr. White or the Secretary of State or both of them.

Senator JOHNSON. Was it upon that theory that you understood Mr. Matthews came to New York to see Mr. Schoepperle?

Mr. LANCASTER. Yes.

Senator JOHNSON. The purpose being to communicate then to the President of Colombia the bankers' views and endeavor to do what could be done to carry out the purposes of the loan; is that it?

Mr. LANCASTER. Yes.

Senator JOHNSON. Were you present during the conversation between Mr. Schoepperle and Mr. Matthews?

Mr. LANCASTER. I was present at the first part of the conversation between Mr. Schoepperle and Mr. Matthews. I think we were not in Mr. Schoepperle's office, if I recall correctly, but in a conference room, and Mr. Schoepperle and Mr. Matthews subsequently retired, and I went back to my own office.

Senator JOHNSON. You were familiar with the ordinary policy of the State Department in respect to foreign loans, were you not?

Mr. LANCASTER. I am.

Senator JOHNSON. That their answer to any suggestions in regard to foreign loans is "We have no objection," ordinarily?

Mr. LANCASTER. Yes; I am familiar with that.

Senator JOHNSON. What has been designated in this hearing as taking a negative position, not a positive one?

Mr. LANCASTER. That is correct, according to my understanding.

Senator JOHNSON. There was a rather different policy here, was there not?

Mr. LANCASTER. This was, as Mr. Schoepperle has pointed out, a transaction which had not yet reached a condition for a public distribution, and ordinarily I should judge from my knowledge of the Department of State's policy, they do not become interested except in cases of loans requiring a public flotation of securities. This transaction, however, at the time contemplated eventually a flotation of securities. It was because of changes in the market subsequently, I should imagine—I am not a banker and I can not speak

positively—but the idea of a public flotation was abandoned and the transaction did not come within the purview of the department's interest. At the time it was contemplated that it would come within their field of interest.

Senator JOHNSON. Have you known of any other loans of any sort where they have taken a like interest?

Mr. LANCASTER. I have not personally been in contact with any other loan at this stage of its development, so I do not know.

Senator JOHNSON. Can you state to me what loan it was in relation to which the State Department said that you must not take a bank examiner's view?

Mr. LANCASTER. I do not know in the first instance whether that statement was made in connection with the loan, and I do not know in connection with what loan, if any, it was made.

Senator JOHNSON. You do not recall that?

Mr. LANCASTER. No; I do not.

Senator JOHNSON. Here was a private loan. Suddenly you are advised by Mr. White of the interest of the State Department in that private loan because of the representations that had been made by President Olaya. That is correct, is it not?

Mr. LANCASTER. Your question does not convey to me exactly the impression that Mr. White's inquiry did convey to me.

Senator JOHNSON. All right. What impression did his inquiry convey to you?

Mr. LANCASTER. The impression which his inquiry conveyed to me was that he was acting as an intermediary——

Senator JOHNSON. Exactly.

Mr. LANCASTER (continuing). To present to the bankers President Olaya's views and to take back to President Olaya the bankers' views; and he was doing this in order to preserve Colombia as a field for American excess exports, if I may put it that way.

Senator JOHNSON. It was done solely from the motive of promoting the commercial enterprises of our country?

Mr. LANCASTER. Yes; and to prevent the growth of a feeling of hostility in Colombia toward Americans through a mistaken idea that Americans were not to be trusted.

Senator JOHNSON. Did you have more than one conversation with Mr. White?

Mr. LANCASTER. Yes.

Senator JOHNSON. When was your second one?

Mr. LANCASTER. I can not place it accurately as to date, but they occurred over a period of three or four days around the middle of May.

Senator JOHNSON. In the first conversation he emphasized the fact that President Olaya had done everything that the Americans had wanted him to do, and he wanted his loan and was not getting it. That was about the fact, was it not?

Mr. LANCASTER. Yes.

Senator JOHNSON. In the second conversation, then, what transpired?

Mr. LANCASTER. I can not distinguish really between the different conversations on those two days, chronologically, as to what happened.

Senator JOHNSON. All right.

Mr. LANCASTER. I have told you in substance what happened in all of my conversations.

Senator JOHNSON. How many did you have?

Mr. LANCASTER. Three or four, I should say.

Senator JOHNSON. Covering only three or four days?

Mr. LANCASTER. Yes.

Senator JOHNSON. And they were at the State Department, were they?

Mr. LANCASTER. No. I think one was at the State Department, and possibly the others were by telephone, or possibly two were at the State Department and the others over the telephone.

Senator JOHNSON. Did you see President Olaya at any time?

Mr. LANCASTER. Yes.

Senator JOHNSON. In whose company?

Mr. LANCASTER. I met him at a luncheon given at 55 Wall Street, New York, at which luncheon besides himself were Mr. Caffery—

Senator JOHNSON. Who was the American minister at Bogota?

Mr. LANCASTER. Yes. Mr. Schopperle, representative of the other bankers interested in the negotiations or in the transaction; and I think that is all.

Senator JOHNSON. Did you ever have any conversations with Mr. Caffery in reference to the loan?

Mr. LANCASTER. No.

Senator JOHNSON. Did you ever have any communications with him with reference to it?

Mr. LANCASTER. I talked to him at that luncheon about the general situation in the Republic of Colombia, but I think that was all.

Senator JOHNSON. Did he say anything about the Barco Concession?

Mr. LANCASTER. No.

Senator JOHNSON. Upon any other occasion did you talk to Mr. Caffery?

Mr. LANCASTER. No.

Senator JOHNSON. Subsequently to that did you see any other member of the State Department?

Mr. LANCASTER. Yes.

Senator JOHNSON. Who?

Mr. LANCASTER. Mr. Francis White.

Senator JOHNSON. You saw him again?

Mr. LANCASTER. Yes. I may have seen the Secretary of State, but as to that I am not quite certain.

Senator JOHNSON. Where did you see Mr. White?

Mr. LANCASTER. At the State Department.

Senator JOHNSON. About how much time elapsed between that and the first series of talks that you had?

Mr. LANCASTER. A month.

Senator JOHNSON. Did he send for you?

Mr. LANCASTER. I do not think so; no. I think I went to see him in relation to some other matter.

Senator JOHNSON. Did he talk about this matter?

Mr. LANCASTER. Yes.

Senator JOHNSON. What did he say?

Mr. LANCASTER. As I recall, there had been some further causes of friction between the bankers and President Olaya.

Senator JOHNSON. That is, they were holding off making the loan?

Mr. LANCASTER. They had advanced in the meantime, that is, between my conversations in the middle of May and the conversations about which you are now asking me—they had advanced the \$4,000,000 which completed the \$16,000,000.

Senator JOHNSON. That last \$4,000,000 was not advanced according to testimony of Mr. Schoepperle, I call to your attention, until the 30th day of June.

Mr. LANCASTER. Well, subject to correction by Mr. Schoepperle, the discussion has related to two so-called last \$4,000,000 loans. One was the last \$4,000,000 which completed the \$16,000,000, approximately.

Senator JOHNSON. That is, June 30, 1931?

Mr. LANCASTER. And the other was the \$4,000,000 which brought the advances up to \$20,000,000, and it would be my recollection, although I may be mistaken—I would have to consult with him about it—that the \$20,000,000 was advanced by the 30th of June.

Senator JOHNSON. That is the last \$4,000,000?

Mr. LANCASTER. Yes.

Senator JOHNSON. You were speaking of yet another \$4,000,000?

Mr. LANCASTER. The aggregate of these advances, I am told by my client, was about \$20,000,000.

Senator JOHNSON. That is correct.

Mr. LANCASTER. The first disagreement in point of view between the bankers and President Olaya as to an advance of about \$4,000,000 related to the \$4,000,000, if I understand the situation myself correctly, necessary to complete the \$16,000,000.

Senator JOHNSON. That advance of \$4,000,000 was made March 17, 1931. I give you these dates so that you will not be confused.

Mr. LANCASTER. Just to straighten me out. That may be correct. I should move perhaps my conversation forward a bit.

Senator JOHNSON. No; your conversations occurring in May —

Mr. LANCASTER. Are correct; yes.

Senator JOHNSON. Then about a month elapsed, and you saw Mr. White again, which would bring you to about the middle of June.

Mr. LANCASTER. Yes; that is correct.

Senator JOHNSON. And the money had not yet then been advanced?

Mr. LANCASTER. There was still \$4,000,000 not advanced.

Senator JOHNSON. And that was advanced on June 30, 1931?

Mr. LANCASTER. That is my understanding; yes.

Senator JOHNSON. Your second conversation occurred about the middle of June, with Mr. White?

Mr. LANCASTER. Yes.

Senator JOHNSON. That is, your second after the first series?

Mr. LANCASTER. Yes.

Senator JOHNSON. In this second conversation what transpired? You said there were some other differences that had arisen between President Olaya and the bankers.

Mr. LANCASTER. There was always a question of the balancing of the budget, because the budget in the month's interval had again shown symptoms of getting unbalanced.

Senator JOHNSON. That was Mr. Schoepperle's constant objection, was it not?

Mr. LANCASTER. Yes.

Senator JOHNSON. The budget had been getting a little worse about that time, in June, had it not?

Mr. LANCASTER. I think there had been some adjustments during the previous month, and there was then a question of further adjustment.

Senator JOHNSON. And those further adjustments led to further disagreements?

Mr. LANCASTER. Yes; along exactly the same lines as before.

Senator JOHNSON. What broke down the objection of the bankers?

Mr. LANCASTER. The conviction that adjustments had been made by President Olaya which would balance the budget substantially and that he had in fact, although perhaps without any public change in position, brought about modification of various items which warranted the assumption that the budget would work out balanced at the end of the year.

Senator JOHNSON. What had he done in the interim, if you know, with respect to anything else?

Mr. LANCASTER. It is my impression that those other things had all been done prior to my series of conversations in the middle of May.

Senator JOHNSON. What was it that Mr. White had to say in the middle of May in this conversation, please?

Mr. LANCASTER. To convey to me again President Olaya's position that he was not to be called upon to balance his budget so frequently.

Senator JOHNSON. And that he had done everything that Americans had asked of him?

Mr. LANCASTER. I do not recall that that was repeated at that time, because it remained true.

Senator JOHNSON. Was the Barco concession mentioned at that time?

Mr. LANCASTER. No, sir; not that I recall.

Senator JOHNSON. Or the petroleum laws?

Mr. LANCASTER. No.

Senator JOHNSON. Or the sending of anybody down to Colombia to assist in the writing of any laws?

Mr. LANCASTER. No.

Senator JOHNSON. Nothing of that sort?

Mr. LANCASTER. No.

Senator JOHNSON. But Mr. White was insisting that the last \$4,000,000 had not been paid and was still delayed?

Mr. LANCASTER. Yes.

Senator JOHNSON. And he wanted you to take it up with your people?

Mr. LANCASTER. Yes, and endeavor to see of what the difference of opinion this time consisted.

Senator JOHNSON. And you went back to take it up with your people?

Mr. LANCASTER. Yes.

Senator JOHNSON. Did you take it up with them again?

Mr. LANCASTER. Yes.

Senator JOHNSON. Did you have any other conversation with Mr. Schoepperle?

Mr. LANCASTER. That is my recollection; yes.

Senator JOHNSON. Did you tell him that you came from the State Department?

Mr. LANCASTER. I told him that I had got his information about President Olaya's attitude from the State Department.

Senator JOHNSON. Did you discuss with anybody else in the State Department the subject matter in June?

Mr. LANCASTER. I think not; no.

Senator JOHNSON. Did you discuss with anybody else than Mr. White and Mr. Matthews the matters relating to the loans after your first conversation in May?

Mr. LANCASTER. Only those conversations in June with Mr. White.

Senator JOHNSON. Did Mr. White exhibit concern over the situation and anxiety that the loan should be paid?

Mr. LANCASTER. Mr. White expressed a desire, if I remember correctly, to have the misunderstanding resolved.

Senator JOHNSON. Did he express a reason then?

Mr. LANCASTER. I do not recall his repeating the reasons which had previously been expressed to me.

Senator JOHNSON. When you went back to New York, you took up with Mr. Schoepperle the matter as you have described?

Mr. LANCASTER. That is my recollection; yes.

Senator JOHNSON. Do you know what conclusion he then reached?

Mr. LANCASTER. Each time that I communicated anything to Mr. Schoepperle in reference to this transaction, I believe he conferred with the associated bankers, and the final result was that they became satisfied that President Olaya was intending to carry out in complete good faith the balancing of the budget and that they could rely upon what he had been doing to balance the budget during 1931 as an evidence of his continuance in the same course, and the moneys were finally advanced.

Senator JOHNSON. Did you have any communication with Mr. Caffery during June?

Mr. LANCASTER. No.

Senator JOHNSON. You met at luncheon President Olaya. Did you see him at any subsequent time?

Mr. LANCASTER. I think not.

Senator JOHNSON. Did you meet him with any member of the State Department or with Mr. Caffery in New York save at the luncheon?

Mr. LANCASTER. No.

Senator JOHNSON. That was the only occasion?

Mr. LANCASTER. Yes; the only occasion.

Senator JOHNSON. Did anybody in the State Department talk to you at all about the obligation of the bank, in relation to this loan, to the Federal reserve system?

Mr. LANCASTER. No.

Senator JOHNSON. Nothing of that sort?

Mr. LANCASTER. No.

Senator JOHNSON. Was anything said between you and Mr. Schoepperle in respect to it?

Mr. LANCASTER. No.

Senator JOHNSON. I think that is all, sir.

The CHAIRMAN. You may be excused.

Mr. LANCASTER. Thank you.

(Witness excused.)

The CHAIRMAN. Professor Kemmerer.

Senator JOHNSON. Mr. Lisman is here, Mr. Chairman.

The CHAIRMAN. Yes; I was just calling them according to the list. If you want Mr. Lisman we will take him now; but I thought the professor wanted to get through so as to go home to-night.

Senator JOHNSON. I will not take more than five minutes with him. I had forgotten that he was here. It is my fault entirely, sir.

**TESTIMONY OF EDWIN WALTER KEMMERER, RESEARCH PROFESSOR IN INTERNATIONAL FINANCE, PRINCETON UNIVERSITY, PRINCETON, N. J.**

(The witness was duly sworn by the chairman of the committee.)

Senator JOHNSON. Will you please state your name, residence, and occupation?

Professor KEMMERER. Edwin Walter Kemmerer, Princeton, N. J., research professor in international finance at Princeton University.

Senator JOHNSON. Are you familiar, generally speaking, with the financial situation in Latin America?

Professor KEMMERER. Yes; in some parts of Latin America.

Senator JOHNSON. Take Bolivia, for instance are you familiar with that?

Professor KEMMERER. I was in Bolivia as president of a commission of financial advisers to the Bolivian Government in 1927.

Senator JOHNSON. Was that just prior to one of the loans being made there?

Professor KEMMERER. There was a loan that had just been consummated when we arrived.

Senator JOHNSON. Was there a subsequent loan?

Professor KEMMERER. There was one, I believe, that took place in 1928; yes.

Senator JOHNSON. Did you make any report concerning the financial situation in Bolivia?

Professor KEMMERER. We made reports to the Bolivian Government on a variety of financial subjects upon which they asked reports, and that included the establishment of the gold standard, the central bank, a general banking law, various taxation laws, the subjects of the budget and accounting, fiscal control, customs, administration and customs tariff, and a number of other subjects of that kind. We also made a report to the Government of a general character on credit policy.

Senator JOHNSON. Will you state whether you made any recommendation as to further dealings by Bolivia or further loans to be floated from Bolivia?

Professor KEMMERER. We made a general report on the subject of credit policy, and in that report we discussed the whole question of loans and the policy in regard to future loans. We recommended that the Government of Bolivia publish all of our reports and projects, and so far as I know, the Government of Bolivia did publish all but the one on credit policy. That report still remains a confidential document and, I believe, has never been released.

Senator JOHNSON. Can you state what your conclusions were as to whether or not future loans should be made or future bond issues should be floated?

Professor KEMMERER. I feel in a little delicate position there, Senator. I could easily tell you what we recommended as regards public credit policy in other countries that published our reports on this subject. Inasmuch, however, as the Bolivian Government itself was apparently unwilling to release this report, and as it stands as a confidential report of our commission to the Bolivian Government until the Government releases it, it is a rather delicate thing to state what is in that report.

Senator JOHNSON. You realize why I am asking you. Bolivia has defaulted, and what I am trying to establish is the fact that an expert like yourself on a complete investigation reached the conclusion that that would be the inevitable result of future loans.

Let us see if we can get at it without talking about your confidential report.

Professor KEMMERER. There is one way to do it, Senator. The recommendation of our commission of financial advisers to Chile was very similar in character, for we had the same general economic philosophy, although conditions in the two countries were naturally different, and that has been published and I can put it into the record.

Senator SHORTRIDGE. That is one way of getting around it.

Senator JOHNSON. Professor, I bow to your superior acumen.

Did you recommend further loans for Chile or not?

Professor KEMMERER. We recommended great care in regard to future loans, and that loans should only be made in the case of Chile—foreign loans—for the productive public works that would be self-supporting in the main; although we recognized that there might be extreme emergencies that would come up that would occasionally justify other classes of loans. But in the main, we advised that the Government should be very cautious and should borrow only for productive public works; and then only in accordance with a carefully prepared public-works program looking well into the future.

Senator JOHNSON. And if that were not done, it was perfectly obvious that there would be ultimate default?

Professor KEMMERER. We said that the consequences would be likely to be serious if the Government did not follow some such policy.

Senator JOHNSON. Have you a copy of the Chilean report?

Professor KEMMERER. I have one here; yes.

Senator JOHNSON. If you have, I will put it into the record.

(The report of the commission of financial advisers to the Republic of Chile on the public-debt policy of Chile, referred to and submitted by the witness, is here printed in the record, as follows:)

#### REPORT ON THE PUBLIC DEBT POLICY OF CHILE

##### GENERAL OBSERVATIONS

For many years in the future Chile will be a borrower of money in foreign markets. A country so rich in natural resources needs large amounts of capital for its economic development and, for some time, it will be wise public policy

to obtain much of this capital by foreign borrowing. Chile is passing through the same stage of economic development that the United States passed through during the last century, and that Canada, Australia, South Africa, and all countries of Latin America are passing through to-day. It is to the advantage of any country with great undeveloped resources to obtain capital in those countries where the rate of interest, due to the great accumulations of capital, is substantially lower than it is in the borrowing country.

Large amounts of foreign capital, as in the past, will undoubtedly continue to flow into Chile through the channels of private investment. But for many purposes, particularly public improvements, foreign capital must be obtained to a substantial degree through Government loans.

The development of the country will to no small extent depend upon the wisdom with which foreign loans are floated and the purposes for which they are used. The statement that "a public debt is a public blessing" is by no means always true, and the unwisely contracted public debts of many countries are evidences of the fact that a public debt often proves to be a public curse. Whether or not a public debt is to prove a curse or a blessing will depend upon the wisdom with which it is contracted and upon the purposes for which its proceeds are expended.

The foreign debt record of Chile has been an excellent one. The Government has scrupulously and promptly met the service charges on this debt and it has avoided the more flagrant mistakes which have characterized the loan policy of many other countries. It is to be expected that the establishment of the Central Bank of Chile, the placing of the Chilean currency on a gold basis, and the introduction of the other financial and administrative reforms recommended by the commission of financial advisers, will stimulate the economic development of Chile. In particular will these reforms stimulate the interest of foreign investors in the possibilities of investments in Chile, both in private enterprises and in Government securities. The probable increase in foreign borrowing renders it desirable that Chile make a survey of her existing public debt and of her probable borrowing needs for the future with the idea of making readjustments in the existing debt and working out a definite and well coordinated loan program.

#### PURPOSES FOR WHICH A PUBLIC DEBT SHOULD BE CONTRACTED

The purposes for which a public debt may be wisely contracted are limited. Borrowing to meet deficits in the annual budget is something that can be justified under extraordinary circumstances, such as war, a public calamity, or some unavoidable event which temporarily causes a deficit in the Government's finances. As a general principle, however, the present should pay the expenses of the present and not burden the future with debts contracted to pay for the expenses of to-day. The financial policy of Chile during the last few years is open to the criticism that public borrowing has been too lightly resorted to for meeting deficits that should have been avoided by a policy of more rigid economy or by increased taxation. Government bonds, like corporation bonds, should be floated only for improvements which last over a period of years.

Even for those who admit the validity of this principle, there is always a temptation to enlarge unduly the field of loan operations. When additional funds are desired, borrowing is usually a line of less political resistance than increased taxation. For a country in Chile's stage of economic development, a public debt contracted for a purpose that does not directly or indirectly yield a revenue out of which the service of the loan may be met, is, except in the case of a limited number of loans urgently needed for such purposes as sanitation and public health, to be considered as a luxury to be indulged in very sparingly. The purchase of equipment for the army and navy, the widening of city streets, and the construction of public parks may represent highly desirable public expenditures, and yet under ordinary conditions may not warrant the pledging of the nation's credit for many years to come to pay for them.

There are a large number of public improvements of a productive nature which the economic situation of Chile makes desirable during the next quarter century. The completion of the port works which the Government has had under construction for some years, the purchase of modern equipment for the state railroad system, the construction, to a reasonable extent, of good roads, and of irrigation projects, the installation of waterworks and of sewage and

drainage systems in many of the cities of Chile, are all purposes for which public debts may be legitimately contracted or guaranteed by the National Government.

#### POLICY OF LOANS FOR PUBLIC WORKS

A comprehensive program of expenditures for public works should extend over a considerable period of years. If the Government, after making a careful study of what its needs will be, maps out a program for expenditures on such projects, this money can be spent to much better advantage than if a haphazard policy of borrowing is followed. The excellent foreign-loan record of Chile in the past, and the increased interest in Chile as an investment field that will undoubtedly come with the new monetary and banking reforms, are in danger of tempting the Government to the immediate borrowing of excessive amounts. The public-debt record of several Latin American countries is a sad monument to the unfortunate results of hasty and unsystematic construction of public works, and more than one country is burdened with interest payments on loans floated many years ago, the proceeds of which were largely wasted.

Your commission suggest that the Government of Chile make a careful study of its probable needs for public works, so that it may have a well-planned construction program, and may apportion its expenditures more or less evenly over a substantial period of years. The appointment of technical commissions, assisted by competent experts, to study the situation would be a wise step before any extended operations are undertaken.

Many of the improvements will be made by the municipalities and other political subdivisions, and most of the loans for these purposes obtained abroad will have to be guaranteed by the National Government. It is questionable if any loans of political subdivisions could be floated abroad on satisfactory terms without the guarantee of the National Government. This will make it advisable that the loan program embrace as far as possible any of the political subdivisions that will be borrowers and that these borrowers cooperate with the National Government in the mapping out of a national loan policy and program.

#### ADVANTAGES OF CONNECTION WITH A STRONG BANKING HOUSE

For a country intending to do any extensive borrowing abroad it is a great advantage to do all of its financing through a single strong banking house. Viewed as a long-run proposition, the service of a banker to a borrower, be the borrower a business house or a nation, consists of much more than selling bonds to the public.

A high-class banking house is more than a salesman of securities. It is a financial friend and representative, and the services that it renders a borrowing country are extremely valuable in building up and maintaining the credit of that country in the financial centers of the world.

1. *Acts as a storehouse of information.*—A banking house which handles the foreign financing of a country becomes of necessity a center of information in regard to economic conditions in that country. It becomes familiar with financial and business conditions, and is constantly informed of investment opportunities in private business. It is in a position to furnish interested business concerns with full information that will help to promote trade relations. A good banking representative abroad is a strong center of propaganda of the right sort for any country. It is but natural that the banking house feels that its interests are closely connected with those of the borrowing country, and it follows that anything it can do to further the interest of that country is in its own interests.

2. *Protection of Chilean securities in the money market.*—A banking house which expects to do further financing for a country has a strong interest in maintaining the credit of that country—an interest that a banking house which holds no such close relationship to the Government does not feel. The security market is extremely sensitive. Prices of government bonds, particularly the bonds of Latin American countries, are subject to sudden fluctuations due to causes other than the fundamental credit standing of the issuing country. Not only do events within a country, such as bad crops and political difficulties, have a tendency to depress the price of bonds, but revolutions in near-by countries often have a serious effect on security prices. If there is no strong banking house ready to protect the market, such fluctuations may have a bad influence on the opinion of that country's credit held by the average investor. Connection with a strong banking house which stands ready to support the securi-

ties of its clients enables a country to come through such events with its credit uninjured.

3. *Assistance in case of emergency.*—Connection with a strong banking house is a great help to a country in case of emergency. A temporary deficit in the budget due to unexpected events may be tided over by short time borrowings through the country's foreign banker in cases where a country without established banking connections could not secure a loan. Loans for special emergency purposes may be floated on short notice through such a banking house and other special services may be obtained that would not be rendered except for regular clients.

The commission does not mean to recommend that Chile should pledge itself to do all its foreign financing through a single banking house. The purpose of doing the financing through a single house is not to place the country in the hands of a banking monopoly, but to make an arrangement that will be for the mutual benefit of both parties. The Government should, as long as relations are satisfactory, continue to do its financing through the one banking house, and might well place in its loan contracts the provision that it will give its future financing to this banking house, provided that the house is willing to offer as favorable terms as any other banking house of equal responsibility and equally high standing.

Even if competing bankers are willing at times to offer slightly better terms for new financing, it is very questionable whether it is a good policy to change bankers in order to secure the advantage of a fraction of a per cent difference in terms. A banking house of high standing which has obligations to a Government expects scrupulously to meet these obligations, and the expense and trouble necessary to protect issues on the market are among the factors that enter into the bids that it can offer. One can not expect something for nothing, and the assistance that comes from connection with a banking house that scrupulously protects the interests of its clients is well worth an additional expense to the Government. A short-sighted policy of economy in this matter will not only leave the Government without a protector in times of emergency, but will give it a bad reputation among international bankers—a reputation that will, in the long run, react to its disadvantage in borrowing.

#### REFUNDING OF EXISTING DEBT

Chile has outstanding at the present time twenty-five distinct external debts, payable in pounds and in dollars. Twenty-one of these debts are sterling debts, having varying rates of coupon interest, varying rates of amortization, and maturities ranging from 1926 to 1960. These loans have been floated through a number of different banking houses. In addition, there are several external debts which are guaranteed by the Government and on which the Government pays the service. A general picture of Chile's public debt situation is given in the tables and charts accompanying this report.

The commission believe that it would be desirable to consolidate these issues into a single loan, with amortization spread over a much larger number of years, in order to lighten the burden on the Chilean treasury during the next few years, when the present obligations would otherwise make it unduly heavy. As long as Chile is borrowing abroad, it is advantageous that the amortization of the loan be deferred as long as is consistent with the obtaining of the most favorable terms.

The plan of having the country's foreign debt in the form of a few large, well-known issues, or still better, in the form of one single issue, is sounder policy than the plan of having it in the form of a large number of small issues. The former plan reduces the expenses connected with the service of the loan, eliminates the possibility that large sellings of a single issue may seriously affect the price and the credit standing of all issues. It makes much easier the protection of all of the Chilean obligations from the effects of temporary fluctuations in the money market, and simplifies the procedure in case reductions in the world interest rates or improvement in Chile's credit standing make it advisable to refund the outstanding securities into bonds bearing a lower coupon interest rate.

Chile has a greater number of different external bond issues than the National Government of the United States has of all bond issues, and two-thirds as many as Great Britain. Most of Chile's pre-war sterling issues, seventeen in all, are callable at par at any interest date at the option of the Government, but as they are all selling considerably below par, chiefly because

of the increase in world interest rates since their issuance, their retirement by call would not be wise at this time.

The commission believe that as soon as favorable arrangements can be made, the Government should refund all of these old sterling loans into a single consolidated loan, maturing not earlier than 1950.

Of the four outstanding dollar loans, one matures in 1926, one in 1941, one in 1942 and one in 1946. Two are callable at the present time at the high figure of 110, and the fourth is not callable until 1932. On general principles the consolidation of the entire outstanding external debt into a single issue is desirable, and it would be well to include the dollar debts in any refunding program, if satisfactory arrangements can be made with the holders of the bonds. The two issues callable at 110 are now selling very near to the call price, and it might be advisable to call them at 110, in case the present holders will not consent to a refunding operation on terms favorable to Chile.

#### POSTULATES OF LOAN CONTRACTS

In all future loans that are floated, the following fundamental principles should be laid down by the Government and consistently followed:

1. *Medium of payment.*—All bonds floated abroad should be made payable in gold coin, principal and interest. Even though Chile is now on the gold standard, the payment of all bonds floated abroad should be definitely provided for in foreign gold coin. In the first place, the confidence of the foreign investor in the permanence of the gold standard in Chile is something that can be built up only by the example of its maintenance over a considerable period, and in the second place there is a psychology of the investor that makes him partial toward securities payable in the currency of his own country, even though such a provision may not add to the fundamental security of the loan.

An excellent provision, which was in many of the earlier sterling loans of Chile, as well as in the loans of many other countries, is that the bonds be payable at the option of the holder in gold coin of several countries, including the issuing country, at a fixed rate of exchange. For example, a bond might be issued in terms of United States gold dollars with the provision that the principal and interest be payable, if the holder wish, in Santiago, at the rate of 12.16 cents to the peso, or in London at the rate of \$4.8665 to the pound. In this way, no additional expense to the Government, the market for Chilean bonds would be widened and the danger of fluctuations in their price, due to conditions in a single country, would be reduced. For many years to come it is not likely that Chile will do any foreign financing in other markets than New York and London.

2. *Maturities.*—As Chile will probably be a borrower for some years to come, and a debtor for many years more, loans, aside from the exceptional ones necessary for meeting temporary deficits, should be contracted for substantially long periods. Since most of the loans will presumably be for productive purposes, the sound policy of private finance should be followed, namely, that the life of the loan should not be permitted to exceed the shortest estimated life of the improvement which the loan is to finance. As long as Chile is in the position of a borrower, constantly maturing obligations should be avoided as much as possible, because refunding operations are annoying, they tend to upset the market for outstanding issues, and they involve additional expense in the form of commissions, and there is always the possibility that the conditions of the loan market at the time the refunding may become necessary, may compel the acceptance of unfavorable refunding terms. Several recent loans made to finance port works have been for short periods. The commission believe that this type of loan should not be used for financing permanent improvements.

In particular should Chile avoid the mistake of making loans for short periods merely because the conditions of the money market at the time seem to offer advantages for short-time loans over long-time loans. The expense of refinancing at the end of a short period often eats up the savings expected to be realized even when the refinancing itself is made on more favorable terms than those on which a long-time loan could have been floated in the first place.

In the loan program which the Government adopts, care should be taken that the amortization of the different loans be so distributed as not to involve a cumulation or bunching of the amortization charges within a small period of years.

3. *Prepayment rights.*—During the last 10 years, largely as a result of the destruction of capital caused by the World War, interest rates have been much higher than previously. The rate of interest that Chile has had to pay on its recent foreign loans is approximately 2 per cent to 3 per cent higher than it paid a quarter of a century ago. This fact is not peculiar to Chile, for to-day throughout the world, governments and individuals are paying considerably more on their loans than they did prior to the war. It is likely that there will be a further decrease in interest rates for some time in the future, as the process of saving throughout the world replaces the great stores of accumulated capital which were lost from 1914 to 1918. Already there has been a movement in this direction. Interest rates have fallen considerably since 1920, and the securities of Chile and of some other Latin American countries, which were floated at 8 per cent a few years ago, are now selling on a basis to yield about 7 per cent.

It is also probable that the interest rate that the Government of Chile will have to pay on its bonds will move downward even more rapidly than world interest rates.

This probable decrease in interest rates as a result of world-wide conditions and of conditions in Chile makes it desirable that all loans that Chile floats in the future contain the provision that Chile may, at any time, after a short initial period, pay off its bonds at par or on the payment of a small premium above par. Thus they could be refunded into new issues paying a lower rate of interest. The earlier bonds of Chile, which were floated in England, contained the provision that the bonds might at any time be called at par, and a similar provision is to be found in the government bonds of many other countries.

Because of the recent decrease in interest rates, and the expectation of further decreases, investors to-day prefer a bond which is not callable immediately and on which a premium must be paid in case of call before maturity. Everything that enters into a loan contract in some way influences the price of the bonds, and if the Government wishes the right to call its bonds before maturity, it must be prepared to pay for this privilege.

The commission believes that it would be advisable to include in all future loan contracts the provision that after, say five years, the bonds may be called at par or at a small premium. When bonds are issued at par or below, there is a temptation to agree to an excessively high call price, on the theory that there is no chance that the bonds will ever rise so high as to make the call privilege of any importance. The high call price of 110 in the recent dollar loans floated in New York is open to criticism on this score. These 8 per cent bonds are now selling at over 109, reflecting a decrease in the effective interest rate since their issuance of about 1 per cent. It is much wiser to follow a conservative policy and pay a small price in the form of a slightly higher interest rate for the privilege of calling at par or at a small premium, than to barter away the advantages that a future decline in world interest rates and an improvement in Chilean public credit is likely to bring.

4. *Security for loan.*—The fundamental security for any government loan is the credit of the government. No pledging of particular revenues for the service of a loan will insure the prompt payment of the service charges if the government does not intend fully and promptly to meet its obligations. On the other hand, a loan for which no revenues are pledged, if the borrowing government has a reputation for scrupulously meeting its obligations, has a credit standing which the mere pledging of revenues can not give.

Although the pledging of revenues usually adds little to the security of a government loan, as a concession to the demands of investors many governments have pledged definite revenues for the service of their bond issues. In this way the freedom of such governments to alter their taxes and their right to contract future loans have often been impaired. The excellent foreign debt record of Chile in the past has enabled the country to do its foreign borrowing without pledging specific revenues. The commission recommends that Chile follow this policy in the future. It will be able to do so if it continues to meet promptly its obligations on its public debt.

5. *No obligation to buy supplies from a particular country or concern.*—In some recent government-loan contracts the bankers have inserted a provision requiring the borrowing government to use the proceeds of the loan for the purchase of supplies in the country where the loan was floated, or from specified concerns. Chile has wisely avoided any such limitation of its freedom to spend the proceeds of its loans where it sees fit, and the commission strongly

recommend that Chile continue this policy. Borrowing money is one thing and buying supplies is another. The Government should borrow in the market where it can obtain the best terms, and, having borrowed the money, it should keep itself absolutely free to spend it in the market or markets where it can purchase to the best advantage. A banking house could lend money at very low rates of interest, or might even profitably loan it without interest if the borrower would agree to spend the money in the purchase of supplies from specified concerns in which the banking house were directly or indirectly interested. What the banking house sacrificed in interest it might recoup several times over in the profits arising from the sale of supplies at high prices. Chile should never tie up its borrowing contracts with an obligation to buy supplies either in a particular country or of a particular concern.

6. *Full exemption from Chilean taxes.*—In order to float bonds in foreign markets it is almost an essential prerequisite that the bonds be exempt from all taxation, present and future, in the issuing country. Foreign investors insist on this provision, for without it there is no assurance that the issuing government, by a high tax on its bonds, may not reduce materially the income of the holders of the bonds. All of the recent foreign loans of Chile as well as most recent foreign loans of other countries have contained such a provision, and it should be inserted in future foreign loan contracts.

#### INTERNAL LOANS

For reasons which were explained in the fore part of this report, it will be sound policy for the Government of Chile for some years to come to float the major part of its bonds abroad. There will always be some funds, however, available from within the country, for investment in the public debt, and, as the economic development of the country advances, the funds within the country seeking such investment will continually increase. It is important that the fundamentals of a sound internal loan policy be clearly understood.

The economic advantages of encouraging saving among the great masses of the people are so well known that a discussion of that point is not necessary. The encouragement that is given to retirement and pension funds, and to the efforts to enlarge the field of operations of the savings banks shows that the importance of this ideal is recognized in Chile. One of the best ways of encouraging the saving habit is to have available for the small investor high-grade securities in small denominations. The success of France in marketing its securities among the great masses of the French people is proverbial and in the United States the Liberty bond issues during the war did much to popularize the purchase of securities by small investors.

The offering of a high-grade security in small denominations within the country would not only provide a wider market for the bonds of Chile, but would be a very desirable thing from a political point of view. The ownership of a small amount of government debt gives to the holder a close and immediate interest in the management of his own government, and particularly in its financial stability. A wide distribution of the internal debt of Chile among its citizens would be a powerful force in support of the gold standard.

Conversely, the establishment of the gold standard would be a strong factor in encouraging investment in internal government bonds. As long as the Chilean peso was depreciating, an investment in Chilean internal securities was an investment in a security that was steadily falling in value. Few persons will purchase bonds payable in depreciating paper currency. There is a close relation between the stability of the Chilean currency and the market for internal bonds.

Another advantage of first class internal government bonds is that of providing an asset in which the savings institutions of the country may invest their funds. At present there is a limited variety of high grade bonds suitable for the investments of savings institutions. Almost the only bonds at present suitable for investment by such institutions are those of the mortgage banks. No matter how high a standing a bond may have, it is not sound policy to have all or nearly all of the assets of institutions which are so affected with a public interest as a savings bank, in one type of security. An internal government bond, floated on terms that would make it attractive as an investment, would help to meet this need.

1. *Purposes of Internal Loans.*—In general the same principles that govern the issuance of external loans apply to the case of internal loans. Because of the attitude of foreign investors, it will be wise policy to obtain as far as possible

the funds for certain purposes from internal loans. As was stated earlier in this report, the fundamental security of any loan is the credit of the government. The particular purpose for which the loan is used, and the particular revenues which are pledged to the service of the loan are small matters in determining the fundamental security of the loan, as compared with the integrity of the government issuing it. Nevertheless there is a prejudice on the part of the foreign investor in favor of loans for direct revenue producing purposes, and it is easier to float a foreign loan for the purchase of railroad equipment than for the construction of school houses. Similarly, the securities of municipalities, even though they carry the guarantee of the national government, are rarely regarded as highly as those of a national government. Hence it will be advisable as far as possible to confine the internal loans to those for school buildings, roads and similar projects that do not yield a direct revenue, and to loans of the municipalities.

2. *Tax Exemption.*—As previously explained, in order to float foreign loans, it is practically necessary to make the bonds exempt from all Chilean taxes. But such tax exemption should never be given to internal bonds. The additional advantage that it offers in the marketing of internal bonds is too small a price to obtain for the bartering away of the state's right to tax its own inhabitants on the income from such bonds. Furthermore, tax exemption results in great injustice in countries like Chile where there is a progressive income tax, for the richer classes by buying tax exempt bonds escape the payment of higher taxes than do the poorer classes. This tends to discourage the holding of such bonds by small investors, and to cause their accumulation in the hands of the rich.

The United States, during the World War, in the effort to add to the attractiveness of the Liberty bonds as investments, gave very liberal tax exemptions to these bonds, with the result that the bonds, instead of remaining in the hands of the small investors, have largely passed into the hands of wealthy men who find the tax exemption privilege of great value to them in evading the high supertax rates of the income tax. The opinion of American economists is practically unanimous that such tax exemptions are unwise. It would be sound public policy for Chile not to grant any tax exemption to any of its internal bonds.

#### DANGER OF TRYING TO GET SOMETHING FOR NOTHING

In borrowing Chile will in the long run secure much more advantageous terms if she recognizes that borrowing is a cold business proposition, and that every element that enters into a loan contract has its price. The granting of special privileges to the lender, the exact value of which can not be calculated, is usually a bad bargain for a government. The case of the Chilean treasury bonds, carrying the privilege of being deposited as a guarantee for the withdrawal of treasury notes from the office of issue, is an excellent example of the result of such an attempt to encourage the sale of a bond issue by the conferring of special privileges. If it was necessary to obtain money, it would have been much wiser for the Government to have paid 10 per cent or even 12 per cent on a straight loan, or to have issued paper money directly, than to have followed the procedure that it followed.

If the credit of the Government is weak, or if market conditions are unfavorable, it is better to recognize that fact and pay the price openly in the form of a higher interest rate, than to pay the high price involved in the granting of special concessions or privileges the economic costs of which are usually incalculable.

Senator SHORTRIDGE. You were employed by the Bolivian Government, were you, to look into matters and make certain reports?

Professor KEMMERER. Yes, sir. I was employed at different times by seven different Latin-American Governments, and Bolivia was one of them.

Senator SHORTRIDGE. And this other report you consider as final, but that you should not repeat it in haec verba?

Professor KEMMERER. Yes, sir. I can give you the reports that have been published, but those that have not been released by the respective governments, I think I should not make public.

Senator JOHNSON. That is all right, sir. You have cut the Gordian knot for us, and so it is all right.

Senator SHORTRIDGE. What is the date of that report?

Professor KEMMERER. The Bolivian report was in 1927. The Chilean report was in 1925.

Senator JOHNSON. Have you made a study of the flotation of these Latin-American loans in this country?

Professor KEMMERER. No, sir.

Senator JOHNSON. You have not?

Professor KEMMERER. No, sir. I have been in these Latin-American countries, in Europe, and in China in this type of work a good share of the time for the last four or five years and I have not had very much opportunity to see what has been going on at this end of the line.

Senator JOHNSON. I wanted to ask you if you can help us, because I am looking forward in an endeavor to stop the big orgy of flotation of foreign loans, and particularly these that we have been speaking of, loans of that kind, by some kind of legislation. Have you thought on that subject and can you aid us at all?

Professor KEMMERER. I do not know that I can tell you a method, but I feel that there is certainly a need of something being done. It has seemed to me very clearly that foreign bonds—other bonds, for that matter also—are affected with a tremendous public interest. When they get into our commercial banks, our savings banks, when they become the investments of trustees for widows and orphans, and become parts of the endowments of our educational and public welfare institutions and are bought by our life-insurance companies, the value of these bonds become affected with a great public interest, not only in our international relations, but in our own national affairs as well. But as to how to accomplish the end sought, that is another thing.

Senator JOHNSON. I was curiously wondering whether in your studies you had reached any conclusions in that regard, and that was why I asked you.

Professor KEMMERER. No, sir; I have no conclusion except the feeling that something should be done.

The CHAIRMAN. Professor, you do not think that there is any necessity of legislation right now, do you? You do not think that there is going to be any further bond issue in the United States for some time, of that kind?

Professor KEMMERER. I do not see much prospect of heavy flotations of foreign bonds in the United States in the near future, but I am reminded by what I believe Mr. Seely, the political scientist, said many years ago, "that history teaches only one lesson, namely, that we learn nothing from history." And I suppose in the course of a short time we will go ahead again and repeat the same mistakes.

The CHAIRMAN. I have no doubt about that, but not right away.

Senator SHORTRIDGE. People forget yesterday.

Professor KEMMERER. They may remember yesterday, but they forget the day before.

Senator JOHNSON. The wise man tries to make provision for the future as best he can.

Professor KEMMERER. Yes, sir.

Senator JOHNSON. These reports and conclusions of the commission that you spoke of in Chile are open to everybody?

Professor KEMMERER. I can give you, if you care to have them, almost a complete set of reports from all of our commissions. The reports on public credit have not been made public except by a few of the countries, but most of the other reports have, and I have duplicate copies of a good many of them, and I would be glad to send them down to you if you wish them.

Senator SHORTRIDGE. Did you prepare reports for European countries?

Professor KEMMERER. Yes, for Poland; and I was currency and banking expert for the Dawes committee.

Senator JOHNSON. What I wanted to make plain was that your conclusions, your information and the like were open to those who were dealing with these government bonds?

Professor KEMMERER. In some cases. Some of the countries did not publish the public credit reports. Peru published all of our recommendations last year promptly except the public credit report and has since published that report. It has not yet appeared in English, but has appeared in Spanish.

Senator JOHNSON. Was your Peruvian report somewhat similar to your Chilean report?

Professor KEMMERER. Yes. I can give you galley proof on that. The CHAIRMAN. If you have a galley proof, the best thing to do is to put it into the record now.

(A report on the public credit of Peru, referred to and submitted by the witness, is here printed in full, as follows:)

APRIL 1, 1931.

PRESIDENT OF THE BOARD OF DIRECTORS  
OF THE RESERVE BANK OF PERU,

*Lima.*

SIR: We have the honor to transmit herewith for such action as may be considered appropriate a report on the public debt of Peru.

Yours very truly,

Commission of Financial Advisers; E. W. Kemmerer, President of Commission, Expert in Currency and Banking; Paul M. Atkins, Expert in Public Credit; Joseph T. Byrne, Expert in Budget and Accounting; Walter M. van Deusen, Expert in Banking; William F. Roddy, Expert in Customs; John Philip Wernette, Expert in Taxation; Stokeley W. Morgan, General Secretary; Lindsley Dodd, Assistant Secretary.

#### SECTION 1. A BRIEF HISTORY OF THE PUBLIC DEBT OF PERU

*The public credit of Peru during the nineteenth century.*—The earliest years of the financial history of the Republic were marked by a disordered condition which was the natural result of the political disturbances of this period. As Dr. P. Emilio Dancourt says of this period in his *Anales de la Hacienda Pública del Perú* (vol. 3, p. 29), "mining, agriculture, and commerce, the principal branches of its (Peru's) former and proverbial wealth, ended by suffering, particularly the first from the calamities following a prolonged period of revolutions; and as they are the source of the largest amount of sound Government income, their decline brought poverty to the treasury and the greatest difficulties to the life of the state." With the year 1845 steps were taken to organize the public credit of Peru, the main reliance being placed upon the substantial revenue which the Government was deriving from the guano deposits, since little Government income was obtained from other sources. Most years saw large deficits in the current budget which were covered by further borrowing and the service of these loans was dependent on the guano revenues. An important phase of this financing was the arrangement which was made by the Government with Dreyfus & Co. According to the contract entered into in 1869, Dreyfus was to have a monopoly of the Peruvian guano

in return for certain advances and for the payment of service charges on the outstanding debt. This contract was terminated in 1874, but various claims by Dreyfus arising under it were not at this time settled. An award by The Hague tribunal in 1921 determined the amount owed by Peru, but it was not until 1925-26 that the sums awarded were finally paid. This early period was closed with the War of the Pacific (1879-1883). When the existing debt was finally canceled as described in the next paragraph, it amounted to about \$44,000,000, according to Dr. Cesar Antonio Ugarte (*Bosquejo de la Historia Económica del Perú*, p. 197). This sum, equivalent to approximately \$214,000,000, may be compared with the funded debt on December 31, 1930, which at the rate of exchange of that day amounted to about \$123,000,000.

The loss of potential revenues from the nitrate deposits and the decrease in the guano revenues, together with the losses caused by the war, made it impossible for the Government to continue service on this debt which, at that time, considering the population of the country and the purchasing power of money was proportionately much larger than the same sum in dollars would be to-day. A settlement of this debt was made by transferring to the Peruvian Corporation, an organization formed by the bondholders, the usufruct of the state railways for a period of 60 years from 1890 plus the annual payment of £80,000, and by granting certain rights notably for exporting a specified quantity of guano. This contract was so radically modified in 1929 that it may be said to have been replaced by a new contract. The railroads were transferred to the company in fee simple and the annual payment by the Government ceased. By the original contract the old foreign debt of the early years of Peru was canceled, and while full payment was not made to the bondholders, it is significant to note that a real effort was made by the Government to meet its obligations.

During the decade 1860-1870 the public credit of Peru in Europe, judging by the context of contemporary publications, had been high. In spite, however, of this record and of the effort made by the Government to adjust its obligations with its creditors in the manner noted, the fact that it was compelled to default in part was a severe blow to its credit standing and contributed in no slight measure to the reluctance of foreign capital to enter the country after 1890, when it was particularly needed to stimulate and promote the development of Peru.

*The development of the existing public debt.*—The existing public debt has, therefore, been created largely during recent years. The present internal funded debt began with the issue of the consolidated 1 per cent loan of 1889, whose emission was started in order to fund certain outstanding obligations of various kinds.

The internal debt was increased from time to time to take care of certain budgetary deficits. In 1898 and again in 1918, 1929, and 1930, loans were issued in order to pay such deficits and to consolidate internal floating indebtedness created subsequent to 1889. Portions of these loans are still outstanding. During the years 1890 to 1910 few new debts of importance were incurred.

The first foreign loan of the twentieth century was contracted in 1906. It was a loan for £600,000, secured by the salt tax, and was issued in order to develop the navy and the coast defenses of the country. The balance due on the loan was extinguished by another loan floated in 1909 for £1,200,000. The remainder of the latter loan was employed in part to pay off a short-term credit of £400,000 and in part for military development. This loan was secured like the former, by the salt taxes. In 1909 a loan for 8,820,000 francs was floated in France by the Government in order to provide for building new ships for the Peruvian Steamship & Dock Co., of Callao (*Compañía Peruana de Vapores y Dique del Callao*). The balance outstanding on this loan was redeemed shortly after the close of the World War from profits made during this period and at a time when the franc was heavily depreciated.

The outbreak of the World War brought with it new financial problems, for, temporarily, a business depression was experienced and reduced revenues resulted. The floating debt was increased and the service of some of the internal obligations was suspended for a short time. The total debt increased, according to the most reliable figures available, by about Lp. 2,250,000 from the end of 1913 to the end of 1915 and amounted at that later date to approximately Lp. 8,898,000. Because of the demand for the major products of Peru, copper, petroleum, cotton, and sugar, created by the war, the latter years of this period were exceptionally prosperous for Peru and hence were favorable to the Government and its finances. The revenue obtained from export duties was increased by the

growth in the shipments of the materials noted. Increased imports were the natural result of the augmented exports and these in turn brought increased Government income from import duties, while the growth of prosperity among the people in general was reflected in large revenues from other taxes. The mounting Government income made possible not only larger expenditures on the part of the various ministries, but covered increased expenditures for public instruction and public works. It also permitted a heavy reduction in the floating debt, the payment of outstanding accounts payable and a reduction in the total public debt which, in June, 1920, amounted to about Lp. 7,111,000. This figure includes Lp. 780,000 of the internal loan of 1918 which had been issued to refund the internal 1 per cent consolidated loan of 1889 and certain other obligations. This period was marked, not alone by a reduction in the public debt, but also by the fact that the budget was practically balanced each year, leaving little or nothing in the way of unpaid indebtedness.

With the ending of the World War and the world-wide economic depression which followed, the revenues of the Government decreased rapidly with the result that for the two years 1921 and 1922 alone, the budget deficit amounted to approximately Lp. 3,000,000. This situation stopped the reduction of the funded debt and caused an increase in the amount of the floating debt, which it was necessary in large measure to fund subsequently.

In 1910 the National Government initiated the plan of assuming or guaranteeing foreign loans floated by local governments. The first of the loans arranged in this fashion was the the 8 per cent municipality of Callao loan in 1910. The same support has since been given in one form or another to a loan for the municipality of Lima, and a later loan for the Province of Callao.

The year 1920 saw the beginning of a series of foreign loans, intended primarily to provide for various public improvements, including roads, railroads, sewer and waterworks in many cities and irrigation projects. In all cases these loans were secured by the pledge of specific revenue of one kind or another. In some cases the balance outstanding of the early loans was extinguished from the proceeds of subsequent loans in order to free the pledged revenues for use as a security for the later loans.

By 1927 the increasing complexity of the debt structure of the National Government together with the desire for additional funds for public works led the Government to negotiate the so-called Peruvian 6 per cent national loan. By means of this loan, the 5½ per cent salt loan of 1909, the Republic of Peru 5 per cent gold bonds loan of 1920, the 8 per cent sanitation loan, series of 1924, the 8 per cent sanitation loan, series of 1926, the Republic of Peru 15-year external sinking fund secured 7½ per cent bonds of 1925 and the Republic of Peru external secured sinking fund 7½ per cent gold bond, series of 1926, were all retired and a certain portion (\$5,771,500) of the Republic of Peru secured 7 per cent sinking fund gold bonds of 1927 (commonly known as the tobacco loan) was purchased for the Government. These conversions resulted in a decrease in the annual debt service on the amount represented by these loans, from \$4,435,282 to \$3,500,455, an economy of almost \$1,000,000 a year, no mean accomplishment in itself.

In addition to the above-mentioned foreign bond issues certain internal bond issues were also added to the public debt. Some of them have since been extinguished and others are still outstanding.

In order to supplement this brief discussion of the public debt represented by bonds publicly distributed, certain appendices have been prepared. In Appendix 1 is given the description of all bond issues floated after December 31, 1900, and retired before December 31, 1930, with a note in each case as to the source from which the funds were obtained from which the final balances outstanding were extinguished. Although the Dreyfus claims do not technically come under this heading similar data in respect to them have been included. In Appendix 3 information of the same nature is given in regard to the issues of bonds floated during this period and still outstanding, including also the Electric Boat Co. notes which are officially considered to be a part of the funded debt. In Appendix 2 is recorded a table of the amount of the bond issues outstanding at the close of each year from 1922 to 1930 inclusive and the amounts of the amortization for each year during the years 1923 to 1930 inclusive. As a part of this appendix are charts showing this information in graphic form.

Chart 1 shows the amount of dollar loans outstanding at the end of each year, the amount of the amortization of these loans, and the amount of the new dollar bonds issued during the course of the year. Chart 2 shows the

same data for pound sterling loans, it contains two sets of graphs to record the external and internal pound sterling loans separately. Chart 3 gives the data for the internal loans in Peruvian pounds (or soles). These three charts are on different scales and hence, in this respect, they are not comparable. The most important information, the amount of the total bonded debt outstanding at the close of each year, is given for each of these several classes of bonds on chart 4 which is on a still different scale. Here all values have been converted into Peruvian pounds (or soles) at the average rate of exchange for the several years as given on page 31 of the December, 1930, number of the bulletin of the statistical bureau of the ministry of finance. This is the cause of the variations of the shapes of the curves on this chart for the dollar and pound sterling bond issues as compared with the forms shown in charts 1 and 2. The declining gold value of the sol in 1930 is the reason why the dollar and pound sterling loans in terms of soles rise, for, it will be observed from charts 1 and 2 that these loans were decreasing in terms of their respective currencies. The reason why the amounts of the pound sterling loans outstanding at the end of 1928 were so high is the fact that the pound sterling tranche of the 6 per cent national loan was issued just before the close of the year while the earlier pound sterling loans which were eventually retired by this issue were not paid off until after the first of the year. The rapid growth of the bonded debt of the Government during recent years, especially of the foreign bonded debt, is clearly evident from these tables and charts.

In addition to the bonded indebtedness which has been discussed in the preceding pages, the public debt of Peru has included in every year floating and other short term debts in various forms including treasury notes, warrants, drafts, loans from banks, loans from the company for tax collection (*Compañía Recaudadora de Impuestos*) and its successor the office of deposits and consignments (*Caja de Depositos y Consignaciones*) and from corporations, and also accounts payable audited and approved for payment. These latter include balances due from earlier accounting periods for whose payment special appropriations from current budgets were necessary since the budgets in which provision for them had been made originally, were closed. A detailed analysis of this part of the public debt at the close of 1930 is given in section 2 of this report.

## SECTION 2. AN ANALYSIS OF THE PUBLIC DEBT OF PERU AS OF DECEMBER 31, 1930

*Classification of debt.*—The outstanding public debt of the Government of Peru consists of three major groups of items, as follows:

(1) *Funded debt.*—This debt is represented principally by bond issues outstanding in the hands of the public. It includes, however, certain obligations to particular corporations which are officially classified as a part of the funded debt.

(2) *Floating debt.*—This is represented principally by loans from banks and corporations which are due and repayable within the course of a comparatively short period (a matter of a few years at the longest), represented in most instances by notes, signed agreements, or other documentary evidence of the debt specifying terms and conditions of payment and in most instances bearing interest at an agreed rate.

(3) *Accounts payable.*—These accounts are logically divided into two groups. In the first are the accounts which have been audited and approved for payment and are recorded in the book of the comptroller general. They represent book accounts now due and in regard to whose legality the Government is satisfied. The payment of some of these accounts has been voted and merely awaits available funds; in the case of others, payment must yet be voted. In the second group are those accounts which are the balances due on orders or contracts placed by the several ministries for goods and services. They have not been audited and approved for payment and hence their exact amount is not known. It has been impossible, however, for the commission to obtain data for these two groups separately and they have, therefore, been combined.

The commission have analyzed the public debt under these several headings, using the figures discussed in this section and the appendices related thereto. Most of these figures have been obtained from official sources and the others have been received either from sources which the commission believes to be reliable or have been computed by the staff of the commission from data obtained from the above-mentioned sources. It is not within the commission's function nor have they had either the time or the personnel necessary to make

an audit of the accounts of the Government. They can not, therefore, assume responsibility for the accuracy of the figures.

*The funded debt.*—The funded debt of Peru may be analyzed in several different ways. In the first place it may be divided into external debt and internal debt. The main distinction between these two classes is that the first represents debt originally incurred to nationals of other countries and the second to nationals of Peru. This distinction tends to lose significance due to the fact that bonds originally sold in other countries may, in the course of time, come into the hands of nationals of Peru, and conversely debt originally incurred to nationals of Peru may pass into the hands of nationals of other countries.

The most important division of the funded debt is between the portion which is payable in foreign currencies and that portion which is payable in domestic currency. In the case of Peru, portions of the debt are payable in dollars and in pounds sterling and the balance in Peruvian pounds or soles. Included in the portion of the funded debt payable in pounds sterling are two loans which are officially classed—and properly so according to the definition given in the preceding paragraph—as a portion of the internal debt. These are (1) Republic of Peru 8 per cent special banking loan of 1924 (Bonos Bancarios especiales 8 per cent, 1924-1944, usually called *Empréstito del Centenario*) and (2) mortgage bonds of the Huando-La Esperanza Corporation of 1926 (Bonos Hipotecarios Huando-La Esperanza). The commission have grouped these loans with the external pound sterling loans because, although it is not a matter of any great significance to the government who owns particular units of the funded debt, it is of very marked importance to the government whether it is necessary for it to pay a debt in foreign or domestic currency.

Before passing on to actual figures, it is desirable to consider certain minor classifications and particular cases which arise under them. In general, the funded debt is represented by bonds outstanding in the hands of the public. In the case of the public debt of Peru, however, certain notes payable to and, so far as the commission have been informed, held exclusively by a particular corporation, are officially included as a part of the national funded debt. These notes are the promissory notes to the Electric Boat Co. (Pagarés Electric Boat Co.), which are payable in dollars and so form an integral part of the external funded debt.

There are four bond issues outstanding which are not included in the official published statements of the national funded debt, but which the commission believe should be considered as a part thereof.

One of these issues is the Province of Callao 7½ per cent guaranteed secured sinking fund gold bonds of 1927. These bonds were issued to provide funds for the use of the province and, in particular, of the municipality of Callao. The service on them is paid out of the revenues of the Province except for Lp. 24,000 paid annually by the National Government from its general budget, and they are a prior lien upon the revenues of the Province. They are, however, a joint obligation of the Province and of the National Government of Peru, and are, in addition, guaranteed by the latter. They represent, therefore, not simply a secondary liability of the Government but a primary liability as well. These bonds should obviously be included in the national public debt in order to give a complete view of the liabilities of the National Government, but their inclusion does not alter the fact that they are also part of the public debt of the Province of Callao and that this Province is primarily responsible for the service.

The second loan, which is not included in the official statement of the public debt (the reason for its failure to be so included is unknown to the commission), has also been added because, so far as the commission has been able to learn, it is a part of the public debt, and is and has been so regarded by competent Government officials. It consists of the mortgage bonds of the Huando-La Esperanza Corporation of 1926 (Bonos Hipotecarios Huando-La Esperanza 8 per cent 1926) which were assumed by the National Government in 1927. These bonds are one of the two internal issues of bonds which are payable in pounds sterling.

The third bond issue referred to is the issue of bonds brought out by the office of the depositors and consignments (*caja de depósitos y consignaciones*), and known as the collection department office of deposits and consignments (*caja de depósitos y consignaciones*) 10 per cent loan of 1927. These bonds were issued by the office of deposits and consignments in order to provide funds to purchase the equity of the collecting company (*compañía recaudadora*)

at the time when the collection of taxes was transferred from the latter to the former. As the office of deposits and consignments particularly the collecting department (departamento de recaudación), is the creature of the Government and essentially an organ thereof, and as the service of the loan is paid out of the national taxes, the loan is clearly to be classified as a part of the national public debt, although it was issued by the office of deposits and consignments, and not by the Government directly.

The fourth loan is one floated to provide funds for the construction of the Children's Hospital. The entire issue was purchased and is still held by the Banco Italiano although it is in such form that it might be sold to the public at any time. These bonds are signed by the director of public credit and not by the minister of finance.

The other issues of bonds which compose the public debt appear to need no particular comment. An official description of each of them is given in Appendix 3. A table of the application of the proceeds of external bond issues since 1922 to date (which, therefore, includes these data for all external loans of the national public debt now outstanding, except the city of Lima provincial council 5 per cent first mortgage bonds of 1911 which were later assumed by the National Government) is given in Appendix 4. A table of the funded debt of the National Government as of December 31, 1930, and of the annual service charges showing the amounts involved for each loan, both external and internal, is given in Appendix 5. This table shows the state of the public debt as of December 31, 1930, with conversions into soles at the rate of S/.3.44 to the dollar and S/.18.675 to the pound sterling, these being the official exchange rates for that day, to be as follows:

*Funded debt as of December 31, 1930*

External:		
In dollars.....	\$89,631,141	S/.308,331,125
In pounds sterling.....	£3,535,300	58,951,127
Internal:		
In pounds sterling.....	£520,000	S/.8,671,000
In soles.....	S/.54,651,735	54,651,735
Total.....		S/.430,604,987

According to the rates of exchange in effect on March 31, 1931 (i. e., S/. 3.52 per dollar and S/. 17.05 per pound sterling), the total amount of the funded debt as recorded above is S/. 439,296,216.

This table shows further that the annual service charges of this public debt with conversions on the same basis are as follows:

*Annual service charges on funded debt*

External:		
In dollars.....	\$7,239,000	S/. 24,902,160
In pounds sterling.....	£287,665	4,796,813
Internal:		
In pounds sterling.....	£64,726	S/. 1,079,306
In soles <sup>1</sup> .....	S/. 6,570,878	6,570,878
Total.....		S/. 37,349,157

NOTE.—According to the rates of exchange in effect on Mar. 31, 1931, the total service charges on the funded public debt for the year 1931 are S/.38,060,424.

*The floating and other short-term debt.*—The floating and the short-term debt may be analyzed in several ways. As in the case of the funded debt and for the same reason, the most important classification is the division between the floating debt payable in foreign currencies and that payable in soles. A further classification of significance is that between bank loans and other short-term credits from banks and bankers, together with loans from or amounts due to corporations or individuals which are represented by notes or other signed agreements on the one hand and open book accounts payable on the other. A table is presented in Appendix 6 which shows the amount

<sup>1</sup> This figure is correct only for the year 1931, for, due to the manner in which the amortization is scheduled, service charges on debt in soles decrease slightly with succeeding years.

of the floating and short-term debt analyzed in this manner, and a summary of this table follows.

*Summary of floating and other short-term debt, audited and approved for payment, as of December 31, 1930*

Bank loans and other short-term credits represented by notes and other signed agreements:

(a) In dollars	6,780,896	S/. 23,326,282
(b) In pounds sterling	206,643	3,445,772
(c) In soles		27,092,988
<b>Total</b>		<b>53,865,042</b>
Accounts payable:		
(a) In dollars	714,509	2,457,911
(b) In pounds sterling	134,812	2,247,990
(c) In pesetas (Spanish)	46,500	17,224
(d) In soles		23,558,825
<b>Total</b>		<b>28,281,950</b>

*Recapitulation floating and other short-term debt as of December 31, 1930*

(a) In dollars	7,495,405	S/. 25,784,193
(b) In pounds sterling	341,455	5,693,762
(c) In pesetas (Spanish)	46,500	17,224
(d) In soles		50,651,813
<b>Total</b>		<b>82,146,992</b>

The rates of exchange employed in making the conversions are those of December 31, 1930; that is, S/.3.44 to the dollar, S/.16.675 to the pound sterling, and S/. 0.3704 to the peseta (Spanish). According to the rates of exchange in effect on March 31, 1931 (i. e., S/.3.52 per dollar, S/.17.05 to the pound sterling, and S/. 0.3876 to the peseta (Spanish), the total amount of the floating and short-term debt is S/. 82,875,470.

The commission feel that certain of the figures used in preparing this table are not exact. For example, in Appendix G under the heading of B-4 accounts payable, balance due on budgets previous to the 1930 budget, there is included an item of S/.100,595.03 due to the All America Cable Co. This company, however, has shown to the commission a letter dated September 1, 1930, signed by the fiscal inspector of cables which states that the amount due the company for the period indicated is S/. 226,256.99.

The commission also believes that under this same heading are various items recorded in soles which are actually payable in other currencies, principally in dollars and pounds sterling. Judging from evidence obtained in the course of their investigations, they believe that the conversions from these other currencies to soles were made at rates of exchange distinctly more favorable to the government than those current at the present time.

The commission understands that the service charges on the Huando-La Esperanza bond issue due on December 31, 1930, and amounting to \$4,920 were not paid. They have also been informed that the service charges on the Republic of Peru internal 8 per cent bonds of 1929-1949, amounting to about S/. 375,000, and also on the Republic of Peru internal 6 per cent public works loan of 1930-1953, amounting to S/. 360,000, were not paid on the date when due. The Government has included none of these items under the heading of the short term or floating debt, although all of them should be so classed. The amortization, however, due on these several bond issues but not paid has been retained as a part of the outstanding funded debt.

It is not the function of the commission to express an opinion as to what amounts are actually due and payable by the government, but they feel it is their duty to call attention to the existence of this situation, for a careful audit would undoubtedly show that the figures given for the floating and other short-term debt are only approximately correct. The research which the commission has done in this field leads them to believe that the net sum of the inaccuracies results in an understatement of this portion of the national debt

and not an overstatement. This is due in part to the omission or understatement of certain items and in part to the statement of certain items in soles which are actually payable in dollars or pounds sterling at rates of exchange which are more favorable to the government than those now in effect or are likely to be in effect for a long period to come.

The commission has made no attempt to ascertain the reason for these inaccuracies. In trying to obtain the most accurate figures possible, however, they have been impressed with the marked inadequacy and incompleteness of the accounting system employed by the government, a system which is so thoroughly insufficient that it would be impossible, even if all other circumstances were perfectly satisfactory, to obtain accurate results.

**BANK LOANS AND OTHER SHORT-TERM CREDITS REPRESENTED BY NOTES OR OTHER SIGNED AGREEMENTS**

Some of the items which appear in Appendix 6 need added explanation. Under the heading "Bank loans and other short-term credits represented by notes or signed agreements" are several items of substantial amount. The first of these is a short-term credit from J. & W. Seligman & Co. in which the National City Bank also participated. The commission understands the facts in this case to be as follows: This loan for \$1,323,039 is the renewal of a loan made in May 1930, primarily for the purpose of completing the Callao Port Works. Although not entirely expended as of December 31, 1930, for this purpose, the balance, which was on deposit in New York, was definitely allocated to this work. This loan is "secured" by the \$5,771,500 of bonds of the 7 per cent tobacco loan which are in the hands of J. & W. Seligman at New York. These bonds are the property of the Peruvian Government and were purchased by the Government for the purpose of being retired. They are over and above sinking fund requirements. The Government is continuing to pay interest on these bonds, and this interest is being used and is used to pay the service charges on this short term loan.

The second item calling for further explanation is the balance of a loan of \$2,000,000 from the Cerro de Pasco Corporation made to the Government in March, 1929. The commission understands that the Government borrowed this money for the purpose of acquiring the rights and equity of the société Générale de Paris in the dock and portworks of the Port of Callao. They have been informed that an agreement was made between the Government and the Cerro de Pasco Corporation by which all profits from the French docks, from the date of their acquisition by the Government, and from the provisional docks and the new docks when completed, should be paid to the Corporation, first in payment of accrued interest at the rate of 6 per cent per annum and second, in repayment of the principal amount of the loan. The commission has been told that this agreement was subsequently modified to allow all the above mentioned profits to be paid to the Frederick Snare Corporation for a period of 24 months. Thereafter, it is understood, the original agreement is to come into force until both principal and interest, the interest on the principal amount outstanding being compounded annually at the rate of 6 per cent per annum, have been paid in full.

The third item represents, so the commission understands, the unamortized balance of \$600,000 paid by the International Petroleum Co. to obtain certain rights in Lobitos oil region for a period of 10 years. If the Government should cancel these rights, it would be obligated to pay back to the company an amount proportional to the unexpired period. If the contract is maintained in force, this balance will be gradually written down each year until at the expiration of the contract it will be entirely extinguished. While properly considered as a part of the national debt, it involves no expenditures for service charges on the part of the Government.

The fourth item, so the commission have been informed, is a payment of \$1,000,000 made by the International Petroleum Co. to the Government under the following conditions: An agreement was entered into that either the Government would exempt the company for a period of years, probably 40, from the payment of pier, dock, and port charges, or, if this arrangement should not be made, then this payment should be considered as a loan bearing interest at 6 per cent per annum. As yet, no arrangement has been made, so far as the commission knows, and hence this item must be considered a short-term loan.

The next item is another payment of \$400,000 to the Government by International Petroleum Co. The commission understands this is to be considered a loan bearing interest at 6 per cent per annum unless other arrangements are made, such, for example, as the extension for a period of time of the contract described in the second preceding paragraph.

The following item represents an amount due the United Aircrafts Exports (Inc.). According to data submitted to the commission, the total amount owed was \$804,600 which was to be paid at the rate of \$25,000 per month. The fourth and last payment to date was made on August 22, 1930, leaving the amount shown in the table as still due.

The final dollar item calling for comment is a loan from the Frederick Snare Corporation. The commission have been informed that this represents a loan to the Government on the part of this corporation to be used for work on the Callao Port works. They understand that an agreement has been signed by the Government and the Frederick Snare Corporation by the terms of which the Government is to pay interest semiannually at the rate of 8 per cent per annum on March 1 and September 1 of each year, and to pay the profits on the operation of the port works to the corporation, after the Cerro de Pasco loan referred to in the preceding paragraph has been amortized, until this loan by the Frederick Snare Corporation has been paid in full.

The second item under "b. In pounds sterling" represents, so the commission have been informed, drafts on the Peruvian Legation in London by means of which amounts due various legations and consular offices in foreign countries are paid. The legation there is expected to make arrangements to cover these drafts pending the arrival of funds from Peru.

The remaining pound-sterling items are amounts due the several organizations noted for work done on the docks at Supe and Mollendo. While short-term debts in form, the Government has treated these amounts like long-term debts.

The first three items under the heading of "c. In soles," treasury drafts, treasury notes, and treasury warrants, are all short-term Government paper in the hands of the public which are payable at sight or within very short periods.

The next item represents drafts drawn upon the office of deposits and consignments to the order of the several banks noted in order to obtain funds to pay the savings depositors of the Bank of Peru and London.

The commission have been informed that these notes have been wholly or in part rediscounted with the Reserve Bank of Peru. In order to protect itself in this transaction, the Government took a first lien on all the assets of the Bank of Peru and London.

The other items under this heading are self-explanatory.

*Accounts payable.*—Attention has been called earlier in this section to the fact that the commission has found it impossible to obtain data for the accounts payable—audited and approved for payment—separately from the accounts payable, which, for some reason, had not received a final audit and approval.

The sums which make up the total of this section come either from unpaid accounts which are the result of budget deficits or from expenditures made under certain special appropriation laws. The commission has been informed that some of the items under the first heading have been outstanding since 1908. These items, if due and payable and, as far as the commission can learn, this is true for practically all items listed which come from the 1929 and previous budgets, should long since have been liquidated. The commission wishes to call attention to the fact that this matter has also been discussed in their Report in Support of a Project of an Organic Budget Law and that provision is made in that project to prevent such occurrences in the future.

The second group of items results from the passage of special laws calling for the expenditure of funds but which did not provide adequately for procuring these funds. The most important case of this kind is a law regarding various public works under which expenditures to the amount of about S/. 16,000,000 have been made. An issue of bonds was brought out to be given to the creditors in order to cancel the accounts payable to them by the Government. Most of the creditors, however, refused to accept these bonds and the balances due them remain, therefore, as current accounts payable.

Attention has been called in this section to the significance to the Government of the debt due in foreign currencies. The accounts payable of this class amounted on December 31, 1930, at the rates of exchange of that day to S/. 4,723,125 and the bank loans and other short-term credits amounted to S/. 26,772,054, together totaling over S/. 31,000,000. It is hardly necessary to say that this represents a serious danger to the financial stability of the Government.

*Summary.*—Based on the figures presented in this section and in the related appendices, the commission believe that the following table represents as accurate a statement of the public debt of the National Government of Peru as of December 31, 1930, as can be obtained without making a thorough audit of all the books of the Government by certified public accountants.

*Public debt of Peru as of December 31, 1930*

	Funded	Floating	Total
In dollars.....	\$89,631,141	\$7,495,405	\$97,126,546
In pounds sterling.....	£4,055,300	£341,455	£4,396,755
In pesetas (Spanish).....		Ptas.46,500	Ptas.46,500
In soles.....	S/.54,651,735	S/.50,651,813	S/.105,303,548

Taking the rates of exchange in effect on December 31, 1930 (S/. 3.44 to the dollar, S/. 16.675 to the pound sterling, and S/. 0.3704 to the peseta-Spanish) the total amount of the public debt of the National Government of Peru was on that date, S/. 512,751,979. Taking the rates of exchange in effect on March 31, 1931 (S/. 3.52 to the dollar, S/. 17.05 to the pound sterling, and S/. 0.3876 to the peseta-Spanish) this public debt amounts to S/. 522,171,686.

FLOATING AND OTHER SHORT-TERM DEBT SINCE DECEMBER 31, 1930

The commission have made no attempt to study the growth in the floating and other short-term debt since December 31, 1930, because official figures have not been available. All the information which has come to them, however, indicates that there has been a rapid growth in its amount. Because of a lack of data they can not, of course, comment upon it other than to call attention to the danger which lurks in this situation.

SECTION 3. RECOMMENDATIONS IN REGARD TO THE OUTSTANDING PUBLIC DEBT

Under the date of February 26, 1931, the Commission of Financial Advisers submitted a preliminary report on the public debt of the Government of Peru and made certain recommendations for action to avoid, if possible, an early default on the payment of the public debt service; or to arrange a moratorium if the Government should feel that it could not continue to make the full payment of the service charges on its foreign debt. Since that date a default on the Peruvian national loan 6 per cent has occurred, a default officially authorized by the Government in the decree which appeared in the public press as follows:

THE PRESIDENT OF THE PROVISIONAL GOVERNMENT

Whereas the Provisional Government has enacted the following decree law: The Provisional Government considering:

1. That the low price of our principal export products caused by the world-wide economic depression, has affected very seriously the economic condition of the country;
2. That, as a consequence of the mistaken financing of the régime which ended last August, the credit of the country finds itself almost completely exhausted;
3. That the political movements which have recently taken place with the object of restoring to Peru its established normal conditions, in addition to causing heavy expenditures, have given rise to the economic disturbances as a consequence;
4. That the failure of one of the banking concerns having the largest system of branches and the widest banking connections in the country has aggravated the economic difficulties of the moment;
5. That the actual fiscal crisis produced by the above-described causes has made itself manifest by a sharp decrease in public revenues, revenues which are being collected at the rate of about 100,000,000 soles a year, whereas the total fiscal commitments amount to 150,000,000 soles a year, including in this figure the service on the external debt and the difference in exchange, all of which creates a deficit of 50,000,000 soles;

6. That since the fiscal receipts are not sufficient, at the rate at which they are being collected, to cover the expenditures which indispensable public services require for the administration of the Republic, the latter finds itself incapable of continuing to pay the service on the Peruvian national loan, amounting to more than 22,000,000 soles a year; and

7. That, as a consequence, the Government, in addition to introducing all kinds of economies in its expenditures, finds itself obliged to take the entire income from its revenues in order to assure, as far as possible, the functioning of the public services:

*Decrees.*—1. That the office of deposits and consignments shall be obliged from this date and until further order to pay to the national treasury the sums which it collects or receives on account of the Government which are destined to the service of the Peruvian national loan.

The other collecting offices shall remit directly to the national treasury the sums collected which are intended for the service of said loan; and

2. The Government assumes the responsibility which results from this order, which is issued, as temporary in character, in view of the exceptional circumstances of the moment, and, in consequence, relieves the office of deposits and consignments and all other collecting offices from all responsibility.

Signed in the executive building in Lima, the 20th day of the month of March of the year 1931.

D. SAMANEZ OCAMPO.  
GUSTAVO JIMENEZ.  
RAFAEL LARCO H.  
M. A. VINELLI.

J. F. TAMAYO.  
U. REATEGUI M.  
JOSÉ GALVEZ.  
FED. DIAZ DULANTO.

Wherefore; I order this to be presented, printed, circulated, and put into effect.

In Lima, the 20th day of the month of March, of the year 1931.

Rubric of the President of the Provisional Government.

VINELLI.

(El comercio, evening edition, March 26, 1931.)

In spite of this default the commission believe that their analysis of the problem and the recommendations made thereon are as sound to-day as they were when the preliminary report was presented. They have felt it desirable, therefore, to include the text of the preliminary report in this section, adding thereto certain modifications in the details of their recommendations made necessary by the fact that a default on one of the foreign loans has taken place since the preliminary report was prepared.

#### PRELIMINARY REPORT ON PUBLIC CREDIT

##### PART I. ANALYSIS AND GENERAL RECOMMENDATIONS

The importance to the welfare of Peru of the satisfactory handling of its public debt, particularly at a time like the present, and the rapid approach to April first when a substantial service payment on the 6 per cent national loan is due, made it necessary for the Government of Peru to formulate promptly the policy which it intends to pursue in regard to its public-debt service.

The commission of financial advisers, wishing to render all possible service in this matter, have prepared this preliminary report. They desire to emphasize the fact that this report is incomplete and tentative in character, and will be replaced later by the final report of the commission on this subject. The present report is, therefore, subject to correction and change in accordance with subsequent information received by the commission, and with the conclusions arrived at by the commission in connection with the investigations they are making in closely related financial fields, such as currency stabilization, taxation, and the national budget. While it is impossible at the present time to submit a detailed analysis of the public debt, due to the fact that full and verified figures for all categories of the debt have not yet been submitted to the commission, nevertheless the commission believe that the analysis of the material so far available justifies certain tentative conclusions that should be presented at this time as an aid to the Government in the formulation of its immediate public-debt program.

On the basis of the data so far available, the commission estimate the total funded debt of the National Government—both external and internal—to be approximately \$/463,000,000, taking the dollar at the rate of 3.735 soles and the pound sterling at the rate of 18.175 soles, namely, their approximate values at

the date of writing of this report. While this represents a heavy burden for a country in the position of Peru, it is less than that of many other countries similarly situated, and, when viewed in the light of the actual and potential resources of the nation over a period of years, with normal world economic conditions and with political and social stability at home, it does not appear to be beyond the capacity of Peru to handle.

*Financial difficulties now faced by the Government of Peru.*—The commission, however, realize that the question is not solely one of a period of years, but is also an urgent problem of the moment. Peru, like other countries of the world, is suffering from a severe and long continued economic depression. The fall in price levels has affected very unfavorably the prices of raw materials such as copper, petroleum, silver, cotton, and sugar—the prices of which in general have fallen more than have those of manufactured goods. This situation affects the budget of Peru unfavorably in three major ways:

1. It reduces the revenues derived from export taxes and, by lowering the volume of imports, it reduces import duties.

2. The decline in business activity within the country cuts the revenues of the Government and reduces the capacity of the people to pay taxes. Moreover, the country was carrying out an extensive program of public works, based largely on extraordinary revenues principally obtained from foreign loans, the curtailment of which has likewise had an unfavorable reaction on the employment and the tax-paying capacity of the people.

3. The resulting decline in the exchange value of the sol, in terms of gold, increases the burden of meeting the service on the foreign debt.

In addition to these unfavorable factors which in one form or another have been affecting practically all countries in the world since the latter part of 1929, Peru has suffered economically from two other events of great importance. The first of these is the revolution through which the country has so recently passed. No matter how salutary from the political and social standpoints the results of a revolution may be, and no matter how economically beneficial it may prove to be in the long run, a revolution inevitably creates new and serious economic problems which it takes time to solve.

The second event referred to is the suspension of the Bank of Peru and London, an event which, by reason of the size of the bank, its numerous branches, and its long continued and close relationship with the economic life of Peru, has been a real economic disaster.

The commission have considered these conditions and appreciate the burden which they have created for the Government and people of Peru. It is difficult for the Government under such circumstances to attempt to effect economies by cutting wages and salaries and by discharging employees and thereby adding to unemployment. It is likewise difficult at such a time to attempt to enforce new taxes or to increase the rates on existing taxes. They understand, therefore, that it is natural for the Government and people to look for relief from the burden which they are carrying to a reduction or suspension of service payments on the public debt.

*The importance of maintaining good public credit.*—The commission, however, also appreciate the great value to a country of an unblemished public debt record. Public credit is difficult to build up and very easy to destroy. This is particularly true of the credit of the nation abroad, in part because foreign bondholders—in the case of Peru their number runs into tens of thousands—seldom know the facts which motivate a request for a moratorium or which bring about a default in the payment of the debt service. They live a long distance away from the debtor country. They remember vividly favorable stories told to them about the resources of the country and its public debt record at the time they bought the bonds and entrusted their savings to the debtor country. They rarely look beyond the fact that the service payments are not being made when due, and, in the future, they are likely to regard with little favor the bonds of any country which has defaulted during recent years or which seeks postponement of the payment of debt service, no matter how justifiable the circumstances.

Peru is going through an experience very similar to that through which the United States passed during the early years of its national history. Even as late as the beginning of the twentieth century the United States was not a creditor nation; on the contrary it was the largest debtor nation in the world. The fact that Peru now needs and will probably need for a long time to come funds from foreign sources is no reflection on the industry or capacity of Peru, her Government, or her people; but is simply an indication that the

country is economically new, that its natural resources are still relatively undeveloped and that capital, which is comparatively plentiful in old and highly developed countries, is still scarce and dear in Peru.

Peru, like all countries with relatively undeveloped natural resources, needs now and will continue to need for many years to come, the investment of large amounts of capital for the development of these potential resources. Funds will be required for the construction of roads, railroads, port works, and other means of communication which will enable the products of Peru to be placed upon the markets of the world at a low cost for transportation, a vital necessity if they are to compete successfully with the same products of other nations. Many fertile acres of Peru now lie idle and desolate because of lack of water and the means of bringing water to them. The timely construction of irrigation works will add great wealth to the nation. The increasing size of the cities and the growing demands of civilization require the satisfactory paving and lighting of streets, the construction of waterworks and sewers and the development of bus or street car services. These are but a few of the many productive uses to which funds can be advantageously put in the future.

The commission do not wish to give the impression that they advocate the immediate undertaking of these projects. On the contrary, they believe that, perhaps, the development of some, if not many such projects, has been pushed forward too rapidly during recent years, and that this is one of the reasons why Peru now finds herself with a public debt of embarrassing proportions.

*The effect of the suspension of debt payments on public credit.*—Some persons have suggested that a default on the public debt and the resulting impairment of the public credit of the country in the financial markets of the world might not, perhaps, be a national calamity at all, for it would check effectively for some little time at least, the expenditure of large sums for public works, sums in excess of what the country could wisely expend. The commission believe, as they have already indicated, that it is probably wise to check the rate of public works development for the time being. They believe, however, that such a method of effecting the curtailment would prove to be excessively expensive. The cure would be worse than the disease. The Government and people of Peru would hardly be content in the years to come to see neighboring countries progressing and developing under the stimulus of foreign capital procured at moderate rates, while their own country would be languishing because of an enfeebled and infirm public credit caused by a failure to provide, in some way, for the service of the public debt at the present time.

Frequent reference has been made in the public press to the fact that Mexico has made an arrangement with her creditors and hence that Peru should be able to do the same thing, without disadvantage to herself. The press usually fails to mention in this connection, however, that this latest arrangement of Mexico with her creditors was made only after the bonds in question had been in default for many years, nor does it usually chronicle the fact that, according to recent quotations of Mexican bonds, it would obviously be necessary for the government of that country to pay exceedingly high interest rates if it should wish to borrow more funds on similar terms in foreign markets. Brazil has also been frequently referred to in the Peruvian press as a country which obtained a moratorium from its creditors, referring probably to the postponement of sinking-fund payments on most of its loans from 1914 to 1927. Moody's Manual on Government and Municipalities for 1930, a reference book on these types of securities, makes the following statement in regard to this matter: "The credit of the country was seriously crippled in the early years of the World War and the country is still struggling to restore its finances and credit." There can be no doubt from this statement but that in the opinion of the editors of this book, which is used widely by investors in reaching decisions in regard to the purchase of bonds, the credit position of Brazilian bonds has been seriously damaged by the failure on the part of the Brazilian Government to maintain regular payments of the debt service.

Peru, herself, at one time defaulted on her public-debt service, shortly before the outbreak of the war of the Pacific. Professor Carlos Wiesse, in his volume *Historia del Perú y de la Civilización Peruana* (p. 251), points out that Peru, having ruined her credit through defaults, was unable to obtain financial assistance from abroad at this time. He further calls attention to the fact that Chile, during this same period, was in a position to borrow abroad because she had maintained the service on her public debt. For more than 40 years, however, Peru has enjoyed a good foreign debt record. This

is a valuable heritage, which the present Government has received from a long line of governments which have preceded it; it is a heritage which it is worth great effort on the part of the present government to pass unblemished to future generations.

The fear abroad that the Government of Peru may fail to meet the service of the public debt has already seriously hurt the public credit of the country. Largely because of this fear on the part of the investing public the bonds of the 6 per cent national loan sold on February 1, 1931, to yield about 18 per cent, which means that the Government of Peru would have been obliged on this basis to pay at least this rate of interest to procure funds on an unsecured basis, and it is questionable whether it would have been able to obtain any considerable amount even at this rate. In April, 1930, the bonds of the 7 per cent tobacco loan were sold on the New York Stock Exchange at 101½. On February 3, 1931, they were sold at 42. The bonds of the 6 per cent national loan sold on this same exchange in March, 1930, as high as 85. On February 3, 1931, they sold at 28½. This means that the yield on the 6 per cent national loan increased to about 20 per cent and indicates that the government would, as of February 3, 1931, have been obliged to pay at least this rate on unsecured loans. Here is clear and indisputable evidence of harm which has been done in less than a year to the public credit of Peru.

In this time of world economic depression investors everywhere are watching to see which nations not only demonstrate their desire to pay their legally contracted debts, but which also show capacity, by self-sacrifice on the part of the government and people and by the skilful administration of their public finances, to meet the debt service. The continuous payment of debt service throughout a period of world economic depression like the present would enhance Peru's public credit standing throughout the world for many years to come, and would thereby materially reduce the cost at which she could obtain foreign loans in the future.

Public credit, in short, is one of the most valuable assets which a country can possess, and failure on the part of a government to pay its obligations promptly and fully when due weakens, and, if continued long enough, destroys that credit which is essential to its orderly economic development at all times, and which is frequently of vital importance in times of national emergency.

*The wide distribution of Peruvian bonds.*—The commission believes that the widespread belief in Peru that the arrangement of a moratorium on the foreign debt could easily be made, and that even a temporary default thereon, without a prearranged moratorium, would not prove to be a serious blow to the nation's public credit, is due in part at least to certain misconceptions in regard to the manner in which the foreign debt as represented by the several bond issues has been distributed and is now held. When an issue of bonds is purchased by a foreign banking house or by a group of such houses, it is not bought for the purpose of being held in the portfolios of these bankers. It is purchased to be resold at the earliest possible moment to investors, both individual and corporate. Most of the issues of foreign bonds which are distributed in the United States, and the same is true of most other countries where such securities are sold, are purchased in relatively small blocks of bonds, usually averaging less than \$5,000. In order to arrange a legal moratorium, therefore, it would be necessary to secure the consent of the holders of a large proportion of its bonds, scattered, in the case of these two series of the national loans, not only all over the United States but also throughout Great Britain, the Netherlands and Switzerland, where they were originally issued, and probably in other countries in which they have since been sold.

The great majority of the holders are not wealthy men nor banks but persons of small or moderate means to whom the loss resulting from a failure of the Government to maintain the service payments would be a serious matter. Such people have long memories for failures of this nature. In this connection it should be further noted that regardless of the truth or falsity of the many criticisms which are so commonly made of the terms of the original contract under which these loans were obtained and the conditions under which the proceeds of the loans were expended, the present owners of these bonds are innocent holders in due course who have purchased them because of their belief in both the willingness and capacity of the Government and people of Peru to pay their legally contracted debts. This wide distribution of ownership of the bonds of Peru is the chief reason why a default would damage so heavily the public credit of Peru. The popular belief that it should

be relatively easy for Peru to arrange a moratorium with the "bankers" is incorrect, since the "bankers" now hold few, if any, of the bonds.

*Recommendations.*—Due, therefore, to the great importance of Peru's maintaining her public credit standing, the commission believe that the Government should make every reasonable effort to maintain full and regular service on the public debt.

Obviously, a commission of foreigners can not, as a result of a study of a few weeks, express a judgment on such questions as the amount of funds needed by the army, the navy, and the police for the maintenance of law and order during a period of national economic instability like the present and at a time immediately following a political revolution. The answer to these questions and to many others like them involve evaluations of powerful political and social forces which it is entirely beyond the scope of a commission of foreign economists to make. These are questions of national politics and of national psychology which Peruvians alone can answer. Furthermore, no commission without an extended and detailed study of other administrative offices of the Government scattered throughout the country would have the facts to justify making recommendations as to the widespread specific economies that should be made in these administrative offices or as to the percentages by which their respective budgets could wisely be reduced. Such a study, which would require many months to make, is impossible on the part of a commission whose scheduled period of service in the country is three months' time and whose principal duty is the formulation of plans for fundamental reforms in the organic financial laws of the country and in its general financial policies.

As stated above, the first suggestions of the commission is that the Government make every reasonable effort to pay the debt service in full without a moratorium. To this end the commission recommend to the Government for immediate action:

1. Rigorous economies in expenditures and especially a more efficient administration in all departments of the Government.
2. Increases in revenues to be obtained by a more efficient administration of existing tax laws.
3. An immediate conference with the fiscal agents of the country to sound out the possibility of short-term credits for a moderate length of time, such as may be strictly necessary to enable the Government to resume full payment from its budget. (The commission offer more detailed suggestions on this subject in Part II of this preliminary report.)

If, however, it should be the mature judgment of the Government that the present situation is so serious as to make impossible the payment of the full debt service, then the commission believe that the Government should take all possible steps to reduce to a minimum the damage to its credit which must inevitably result from a moratorium. To this end they make the following recommendations:

1. That the current Government expenditures be cut, not only to provide funds so that the debt service may be paid as fully as possible but also to furnish concrete evidence of the determination of the Government to bear a substantial share of the burden and thus reduce to a minimum the proportion of the burden that it shifts to the bondholders.
2. That only a partial moratorium of the debt service be sought.
3. That sinking-fund payments be suspended before interest payments are cut.
4. That as much interest be paid as possible and that at least some interest be paid on all bonds on each interest date throughout the entire moratorium.
5. That scrip or other negotiable notes in satisfactory form be given for all interest due that is not paid in cash.
6. That definite plans be made, at the time the moratorium goes into effect, for the resumption of full service charges at the earliest practicable date, and for the payment of all unpaid service charges accumulated during the moratorium.
7. That the Government voluntarily offer to pledge and do pledge, in a form which will be reasonable for the Government and at the same time satisfactory to the bondholders, revenues sufficient to make possible the putting into effect of the plans referred to in the preceding paragraph, proper allowance being made for the pledges securing existing loans.
8. That the Government take these steps before an actual default to bondholders occurs.

## PART II. SUGGESTIONS CONCERNING POSSIBLE SHORT-TERM FINANCING IN ORDER TO MEET PUBLIC DEBT SERVICE CHARGES

The commission offer the following suggestions in regard to possible short-term financing in order to meet public debt service charges during a period in which the Government may take steps to recognize its finances. These suggestions are made without knowledge of what attitude any bankers approached might take in regard to them and hence the commission can not give assurance that any bankers or group of bankers would accept them. These suggestions, however, appear to the commission to be not only sound and logical, but feasible and the commission believe them to be worthy of the careful consideration of the Government before it reaches any definite decision in the matter.

In order to understand why certain suggestions are made, it is necessary to consider briefly some of the factors involved in a number of loans now outstanding and particularly to understand certain of the limitations contained in the 6 per cent national loan agreement.

In the first place certain revenues are now specifically pledged for existing loans, as follows:

PERUVIAN GOVERNMENT LOAN	PLEGDED REVENUES
Seven and one-half per cent guano loan of 1929-1948.	The guano tax and 50 per cent of the stock of the Guano Co.
Republic of Peru—secured 7 per cent sinking fund gold bonds, 1927-1959 (commonly called the tobacco loan).	The tobacco revenues.
Promissory notes Electric Boat Co.	Revenues for national defense created by Laws 4480 and 4936.
Republic of Peru 8 per cent special banking internal loan, 1924-1944.	Revenue stamps and stamped paper revenues.
Republic of Peru 7 per cent cedulas of the consolidated internal debt of 1918.	Net proceeds of alcohol tax.
Huacho 8 per cent sanitation loan of 1923.	Predial, urban, and industrial, revenues of Chancay and additional duty on the export of Huacho. Laws 2870 and 4110.
Republic of Peru internal 8 per cent postal loan, 1924-1944.	Two per cent on parcel-post goods and proceeds from the rent of stores in post-office buildings.

There are also certain clauses in the loan agreement covering the 6 per cent national loan which demand consideration. In particular they are the following:

1. That no additional bonds of this loan shall be issued unless the gross revenues of the Government collected by or deposited with the office of deposits and consignments (Caja de Depósitos y Consignaciones) shall have averaged for the three preceding fiscal years at least one and three-quarter times the maximum service charges required on the bonds of this loan, issued or to be issued.

2. That no additional bonds of this loan shall be issued unless the total gross revenues of the Government shall have averaged for the three preceding years at least three times the maximum service charges on the entire funded debt, both external and internal.

3. That no revenues or assets shall be pledged for the service of any loan issued subsequently to this loan unless a prior lien on those revenues or assets is given in favor of the national loan.

It would appear, therefore, that no revenues, not pledged prior to the issue of this loan, can be pledged to secure any loan unless the several series of the national loan are all given a prior lien thereon. In view, therefore, of the limitations upon the issue of additional bonds of this loan, it is possible that the Government might find itself restricted even though there are about \$15,000,000 bonds authorized under this loan agreement which have not yet been issued.

The commission are further of the opinion that, with the present condition of the bond market in the United States and in Europe, and in view of the prices at which the bonds of the national loan are currently selling in the principal security markets of the world, it would be impossible for the Govern-

ment to sell additional bonds at the present time except at ruinous rates of interest.

In spite of the limitations which have been presented in the preceding paragraph, the commission believe that there exists a possibility of securing funds in the form of a short-term loan under terms which would not be unduly onerous. This plan, if it should be put into effect, would require certain sacrifices on the part of the Government, but the commission do not believe that these terms would be at all commensurable with the damage which would be done to the public credit of the country if a moratorium were sought or a default were permitted. The plan, in brief, is this:

That the Government offer to pledge its customs revenues (both export and import), as security for the entire national loan, including the bonds to be issued as well as the bonds already outstanding. In view of the revenues already pledged, the customs revenues appear to be the logical revenues to offer since they alone of any major group are sufficient to offer adequate security for the debt service involved. Their pledge would not mean that the Government would have any less revenues provided it should meet its loan service, for a pledge of revenues in this manner does not decrease the income of the Government, but merely assigns certain specific revenues for a particular object. The pledge of these revenues, therefore, should cost the Government nothing additional, as a matter of fact. It would merely limit its control over the revenues pledged. There are three important reasons for the above suggestions:

1. By offering greater security to the existing bondholders than they now possess, the Government would be justified in asking them for relief from the restrictions previously noted upon the issue of additional bonds of this loan.
2. Peru under present circumstances can not hope to obtain an unsecured loan, and hence in order to secure a loan it must pledge something that will be acceptable.
3. By pledging these revenues as security for this loan for the maximum amount authorized of \$100,000,000, there would be made available, providing existing bond holders should accept the charge suggested above, an additional \$15,000,000 of bonds, making a total of \$100,000,000 bonds which would be secured by a pledge of customs revenues.

While it would probably be impossible to sell these bonds at present, even though they were secured as suggested, at a price which would appear reasonable to the Government, they could be offered as collateral to secure a short-term loan from the bankers. It might be necessary to pledge the entire \$15,000,000 of bonds of this new series to secure a loan, say, for example, of \$5,000,000. This does not mean that the government would be paying interest on \$15,000,000 in order to secure the use of \$5,000,000. It simply means that the government would pay interest on the \$5,000,000, but would leave the \$15,000,000 in bonds with the bankers as collateral, the entire \$15,000,000 in bonds being returned to the Government when the short-term loan was paid off. The Government would later be in a position to authorize the bankers to sell a portion of these bonds in order to obtain funds to pay off the short-term loan when the condition of the bond market and the improved public credit position of Peru should make such a transaction desirable.

There is another manner in which the commission believe it might be possible, with the consent of the holders of the 6 per cent national loan, for the Government to obtain a short-term loan. According to the best information which the commission have been able to obtain, there are in the hands of bankers in New York \$5,771,500 of the Republic of Peru 7 per cent sinking fund gold bonds of 1927 (the so-called tobacco loan). These bonds are the property of the Government, as far as the commission have been able to learn, and were purchased over and above sinking fund requirements, to be retired. It might be possible to use these bonds as additional collateral, subject to certain minor legal restrictions, if suitable provisions were made for the existing short-term loan (amounting to \$1,323,038); arranged through the bankers for which the bonds are now held, more or less as collateral.

If the Government should be able to issue \$15,000,000 of new national loan bonds in the manner above described, and should be able to add to this the \$5,771,500 bonds of the 7 per cent tobacco loan, it would have bonds to about \$20,750,000 available to use as collateral for the short-term loan now outstanding and for other short-term loans that might be necessary to meet the service charges on the public debt which, for the time being, can not be covered out of budget receipts. If it should be possible to arrange with the banks for such short-term loans, the Government would be relieved from the pressure of seeking a moratorium on its debt service.

As an integral part of the suggestion to issue additional bonds of the 6 per cent national loan, all the series of this loan being secured by a pledge of customs revenues the commission offer the following suggestions which they believe would be advantageous to the Government. In return for the pledge of the customs revenues, the commission believe that it would be appropriate for the Government to request from the present bondholders the cancellation of that part of the existing loan contract which requires the amortization of the bonds now outstanding, through call by lot at par, and the substitution therefor of an agreement to amortize the same number of bonds annually as scheduled under the present agreement, but by purchase in the open market, the right being reserved to call at par should the market price exceed par. While this would take time, ample time is available for this action. It is impossible, of course, to compute the saving which this arrangement would effect for the Government for it is not possible to forecast the market price of these securities. It seems highly probable, however, that this arrangement would result in a substantial saving to Peru during the life of the loan. The commission wish to note that the existing arrangement did not represent an unusual condition at the time of the issue of the loan. It is one which is frequently employed to make possible the sale of bonds in the first instance at a higher price than would have been possible without this clause. The commission believe, however, that the definite pledge of revenues is an advantage to the bondholders for which the Government has a right to request this change in the amortization plan which would be to its marked advantage.

#### SUGGESTIONS IN REGARD TO THE INTERNAL DEBT

The commission wish to offer the following suggestions in regard to the internal debt of Peru:

I. That the outstanding internal bond issues, payable in soles, be refunded into a single internal bond issue likewise payable in soles, the exchange being made on an equitable basis.

In order to indicate the nature of the new bond issue which the commission suggest, the following details are presented:

1. Bonds to be issued in amounts of \$/500, \$/1,000, and \$/5,000, and in other convenient denominations, but not less than \$/500, carrying 6 per cent annual interest payable semiannually. By paying interest semiannually instead of quarterly and by not issuing bonds of very small denominations, much expense in the administration of this loan may be saved.

2. Bonds to mature in 25 years.

3. A cumulative sinking fund to be established on the basis of semiannual drawings at par, sufficient to retire the entire bond issue by maturity. The amount of the bonds to be amortized on each semiannual interest date to be purchased in the open market if the market price is less than par, or to be drawn at par if the market price is above par. The entire amount of the sinking fund provided for in the amortization table to be expended for the purchase of bonds below par or for drawing bonds at par. The knowledge that these funds would be available and would be applied each year to the redemption of this loan would strengthen the market for these bonds, and make them better collateral at the banks.

4. The definite pledge of all customs revenues not required to meet the service of the 6 per cent national loan as described in earlier paragraphs. This will add further to the marketability, and hence the collateral value, of these bonds.

II. The commission further suggest that the internal floating debt and the other short-term internal debt represented by notes and/or other negotiable instruments in soles be converted into bonds of this issue on a basis equitable to the holders of the bonds converted into this issue as well as to the holders of the floating and other short-term debt. The funding of the floating and short-term debt into bonds of a single large issue with definite maturity, interest rate and sinking fund provisions, should do much towards promoting business activity and financial liquidity. Bonds of a single large loan of this kind should possess greater marketability than do any of the internal issues now outstanding. Hence, the holders of these bonds, especially those who receive them in exchange for notes or accounts payable of the Government should be in a much better position to realize upon them by their sale or by hypothecation than is possible now where their claims upon the Government are practically not negotiable whatever may be their legal status. It has been

repeatedly called to the attention of the commission that the frozen condition of the portfolios of many of the banks in Lima is due in a large degree to the fact that merchant borrowers of the banks have been unable to collect large sums from the Government, sums representing debts which the Government does not in any way dispute. The proposed issue of bonds would contribute much to the solution of this problem.

The commission believe that the stimulus to business, which would result from the adoption of this plan, would be an important factor in the economic recovery of the country.

The default which has occurred on the Peruvian national 6 per cent loan, second series, 1928-1961, and the failure of the Government to arrange for a moratorium in advance of the date when the service charges on this loan were due have further weakened the public credit of Peru. Although it is now too late to escape from the stigma of a default, the Government should at once take action to reduce as far as possible the damage which this default will cause, and to build up again the public credit of the Nation. The more energetically and carefully the Government acts in this matter, the less will be the harm which Peru's credit will suffer because of the default. In this connection the commission renew with certain modifications required by recent developments, the recommendations made in the preliminary report, as follows:

1. Cut current Government expenditures not only to provide funds so that as much of the debt service as possible may be paid, but also to furnish concrete evidence of the determination of the Government to bear its share of the burden and thus to reduce to a minimum the share of the burden which it requires the bond holders to carry.

2. Increase revenues by a more efficient administration of the existing tax laws, and by the enactments of certain new taxes which the commission are recommending.

3. Send a commission possessing full powers to New York to have a conference with the fiscal agents for two major purposes: (a) To seek their aid in arranging a moratorium with the bond holders; (b) to sound out the possibility of short-term credits for a moderate length of time, such as may be strictly necessary to enable the Government at the earliest possible date to resume full payment from its budget.

4. Make a definite arrangement to provide in some manner for the service charges due on April 1, 1931, on which a default has taken place.

5. Seek only a partial moratorium of the debt service suspending sinking fund payments before cutting the interest payments.

6. Pay as much interest as possible, and make at least some payment of interest on all bonds on each interest date throughout the entire moratorium.

7. Give scrip or other negotiable notes in satisfactory form for all interest due and not paid in cash.

8. Make definite plans, incorporated in the moratorium agreement, for the resumption of full service charges at the earliest possible date and for the payment of all service charges suspended.

9. Offer to pledge, and do pledge, in a form which will be reasonable for the Government and, at the same time, satisfactory to the bond holders, revenues sufficient to make possible the plans referred to in the preceding paragraph, proper allowance being made for the pledges securing existing loans.

While it is undoubtedly difficult for the Government to cut expenditures by the reduction in salaries and in the number of Government employees, the commission wishes to call attention to the fact that according to the index numbers given on page 17 of the Boletín de la Dirección General de Estadística del Ministerio de Hacienda for December, 1930, the cost of living in Peru has declined, from 201 in 1928 to 162 in December, 1930, a fall of almost 20 per cent. During the same period, according to data from the Ministry of Finance, the number of Government employees including army, navy, and the police increased from about 27,500 to approximately 33,000 or about 20 per cent, while in round figures the amount paid in wages and salaries increased from S/. 41,000,000 to S/. 55,000,000, or more than 34 per cent. In view of these circumstances, the commission believes that it should not be impossible for the Government to effect economies in this connection.

The commission wishes also to call the attention of the Government to the fact that Peruvian bond holders throughout the world and the investing public in general are comparing the action taken by Peru with that taken by other South American countries in a somewhat similar position, for example, Colombia and Bolivia. Leaving out of consideration service charges on the public

debt, the budget of Colombia for 1931 is over 32 per cent less than the budget for 1929. On the other hand, the debt service for 1931 is about 22.5 per cent higher than in 1929, and yet Colombia is managing to pay all service charges. In the case of Bolivia, the budget, omitting the service charges on the public debt, is over 20 per cent less in 1931 than in 1929. In this connection it should be noted that the service charges on the public debt took 38.9 per cent of the budget in 1929 and 39.4 per cent of the budget in 1930. While it has been necessary for Bolivia to suspend service charges on the public debt in part, she has made a categorical statement that she will pay all she can and will make up arrears as rapidly as possible. The commission fears that it will be difficult for Peru to convince her foreign creditors of her good will in regard to her foreign debt, in view both of what these countries have accomplished and of the facts in regard to the situation in Peru just presented, unless a substantial cut in the public expenditure is made.

In order to arrange a moratorium with the bond holders it will be necessary for the Government to send a commission to New York. Because of the close banking connections between New York and London, Amsterdam, Zurich, and other European financial centers, a commission in New York would probably be able to arrange a moratorium with bondholders in Great Britain, the Netherlands, Switzerland, and other countries as well as with bondholders in the United States. This commission should be composed of men of the highest caliber and should go with full powers to effect a settlement. Presumably they would keep in cable communication constantly with the Government, and hence the Government would be in a position to ratify promptly any arrangement with the bondholders which the commission should recommend.

In view of the fact that a default has actually taken place, it will be more difficult to obtain a short-term loan from the bankers than it would have been had such a loan been sought before the default occurred. Because of this same fact, it will be even more desirable now to pledge specific revenues: in order to reach an amicable arrangement with the bondholders. The commission wishes to emphasize the fact that the more quickly the Government acts and the more clearly it gives tangible evidence of its desire to fulfill its obligations to the limit of its capacity, the easier it will find it to arrange a moratorium and the more quickly it will restore its credit position.

Since a suspension of payment of service charges on the Peruvian national 6 per cent loan has been made, a similar suspension should take place in the case of all internal loans, for it has been the practically universal custom of nations to give precedence in paying service charges to their external debt over their internal. The reasons for this procedure are clear. The citizens of any country are much more familiar with the conditions within their own country than are foreigners, and so they can comprehend much more readily than foreigners the difficulties with which their government is contending and the need for a moratorium. Obviously, it is natural to expect a citizen of any country to make sacrifices for his country before calling upon a foreigner to make similar sacrifices for this same country.

Because of the conditions just indicated, a moratorium on the internal debt ordinarily affects the credit position of a government less adversely than does a moratorium on the foreign debt, and hence the credit position of a country normally recovers more rapidly from a moratorium on an internal debt than from one on an external debt.

#### SECTION IV. SUGGESTIONS IN REGARD TO A PUBLIC-CREDIT POLICY

A definite yet flexible public-credit policy, adopted with regard, not primarily to the exigencies of the moment, but with a view to the best interests of the nation over a period of years, is essential to the financial stability of the Government of Peru and to the economic welfare of the country. In this connection the commission make the following suggestions in regard to the public-credit policy of the National Government of Peru:

1. That it base its future public-credit policy and operations on these principles: (a) That it will float no long-term loans to provide for current ordinary expenditures; (b) that it will float long-term loans only to provide for durable public works, except in time of great national emergency.

2. That it simplify its existing funded debt structure by refunding existing bond issues into two loans—one external and the other internal—when it becomes financially desirable to do so, and that additional long-term funds be obtained by the subsequent issue of additional series of these loans as may be needful and convenient.

3. That it provide a method by means of which the funds needed for public works by certain local communities may be obtained, at least in part, by substituting its own credit for theirs the National Government accepting in return their obligation to provide for the service charges on the loans.

4. That it set up a public-credit council to advise it currently in regard to public-credit policy and to have power to take action when requests for long-term loans are submitted by local communities.

*No long-term loans to meet current ordinary expenses.*—The flotation of long-term loans to provide for current expenses or to fund floating debt created by budget deficits is unsound public finance. It should be the objective of every government to balance current ordinary expenditures with current revenues. If receipts decline or appear likely to decline, the effort should be made to reduce expenditures in proportion. At times this may be difficult to accomplish, for a country like Peru whose income is largely dependent on the production of a limited number of raw materials, is usually subject to sharp fluctuations in its economic activity and hence to marked changes in these government revenues. As a result of a world-wide decline in the prices of these raw materials, it may sometimes be extremely difficult for the Government to cut a particular annual budget to such an extent that it will balance. This condition emphasizes the necessity of carefully planning the budget, not only in terms of the probable receipts for a year in advance, but also with regard to probable economic trends. It is not a sound reason for borrowing on a long-term basis in order to cover budget deficits.

*Long-term financing for public works only.*—If long-term loans are not to be employed to meet current ordinary expenditures, it is evident that their major function is to provide for public works of a more durable nature. The only exception to this rule is in case of a great national emergency, such as a war on a major scale, or earthquakes or floods which devastate large sections of the country. Under such circumstances it is reasonable for the Government to consider the flotation of a bond issue in order to procure funds for meeting what is clearly a great national emergency. There are many different kinds of public works for which public funds may be appropriately expended, such as: Roads; railroads; irrigation works; school buildings; markets and slaughter houses; power plants; water, sewer, and street lighting systems; street car and bus lines; telephone and telegraph lines; and wireless systems. As such improvements are relatively permanent and give service over a period of years, it is sound financial policy to provide for their financing out of long-term bond issues, provided the maturity of the bond issue from which the funds are obtained is shorter than the probable life of the public works for which the money was used.

*Public-debt structure.*—In order to have a public-credit policy which is not only sound but flexible and economical, it is desirable that the public-debt structure, especially the funded debt structure, be as simple as possible. To that end it would be desirable for the Government to have outstanding only two bond issues, one external and the other internal. The bond issues could and should be floated in series as the need and desirability for additional funds becomes evidence. Such an arrangement would simplify the control of the service on the loans and reduce the accounting and other administrative costs. Furthermore, such loans if they were properly set up from the standpoint of the investor, would be more marketable and this fact would aid the Government in financing itself on better terms.

*A unified external loan.*—The existing 6 per cent national loan was originally planned, so the commission have been informed, to become an external loan of the general type which the commission are recommending. Subsequent series were planned to retire outstanding foreign issues when, as and if, it should become financially advantageous to do this, particularly the 7½ per cent guano loan which is not callable until 1933. The commission see no good reason why this original general plan should not be followed, subject to certain modifications that may appear desirable. In amplification of this general plan, the commission offer the following specific suggestions in regard to a single external loan to be issued to refund outstanding external loans and to obtain such additional foreign funds as may appear desirable:

1. The loan to be issued in series as needed and within the limitations noted in subsequent paragraphs.

2. The loan to be issued in terms of one of the most widely used foreign currencies with conversion values in one or more other important currencies at fixed rates of exchange applying to both the interest and the principal, at

the option of the holder, thus giving the bonds a maximum degree of marketability.

3. The maturity of each series to be less than the probable life of the public improvements to be effected with the proceeds thereof.

4. A cumulative sinking fund to be established for each series on the basis of semiannual drawings, at par, sufficient to retire the entire series at maturity. The amount of the bonds to be amortized on each semiannual interest date to be purchased in the open market if the market price is less than par or to be drawn at par if the market price is at par or above. Any and all series to be called, on any interest date, in whole or in part, at par, at the option of the Government, on 60 days' notice. If called in part, the bonds to be retired to be drawn by lot.

5. The coupon rate of interest paid to be the same on each series unless a different coupon rate is clearly desirable.

6. In order to obtain its funds at the lowest possible effective interest rates, the entire customs revenues to be pledged for the service on all series of this loan, until such time that the Government can borrow funds at an effective interest rate of 5 per cent or less without such pledge.

7. That there may be an automatic check on an excessive issue of bonds of this loan, no additional series to be issued unless and until the average customs receipts for five years immediately preceding the year of the proposed issue shall be one and three-fourth times the service charges on the series outstanding and the one proposed to be issued combined.

*Notes in regard to the pledging of revenues.*—The commission suggests the pledging of specific revenues for the service of this loan, because they believe that the gain to the Government in the form of a lower cost of funds borrowed would much more than offset any disadvantages resulting from the pledge. They would emphasize the fact that the pledge of revenues does not reduce the net revenues of the Government, as long as the payment of service charges is maintain. The credit position of Peru has received such a heavy blow through events of recent months that it will probably be difficult, if not impossible, for a long time, for the Government to borrow long-term funds on an unsecured basis except at very high rates of interest. It seems to the commission, therefore, that the economic gain of a lower cost on borrowed funds would much more than offset the intangible loss caused by a lack of complete freedom of control on the part of the Government over the pledged revenues.

In order to make such a pledge of revenues acceptable to foreign bond buyers and hence of value to the Government it would be necessary for the Government to agree not to make any changes in its customs duties which would result in a lowering of the total proceeds thereof during the life of the loan. This does not mean that it would be impossible to make changes in rates provided that the changes did not cause a decrease in total customs revenues below the amount which would have been received if the changes had not been made.

In order to make such a pledge of revenues acceptable to foreign bond buyers and hence of value to the Government through more favorable borrowing terms, it would probably be necessary to permit some sort of control by the fiscal agents over the pledged revenues. The commission suggests the following method as one which probably would meet the requirements of the investing public and at the same time interfere very little, if at all, with the administration of the customs by the Government:

1. The customs duties to be paid to the Central Reserve Bank of Peru, or to any agent which it may appoint for this purpose, to be held in a special account.

2. In those ports of entry where the amount of the customs receipts is so small as not to justify the maintenance of an agent, customs duties to be paid by affixing and cancelling stamps to customs documents, said stamps to be obtained from the Central Reserve Bank by any safe and convenient method established by the bank.

3. All customs duties received directly or through the sale of stamps to be drawn against only by check countersigned by the customs expert appointed as indicated below.

4. Each month one-twelfth of the amount required for the annual service charges on all series of this foreign loan to be remitted to the fiscal agents of the loan, the balance to be transferred to the national treasury.

5. In order to advise the Government in regard to customs administration and policies, a customs expert to be appointed by the Minister of Finance from a list of four men submitted to him by the fiscal agents (not more than two of them to be nationals of the United States and Great Britain).

6. Included among the various duties of this expert is to be the task of verifying the receipts, deposits, and disbursements of the customs duties.

*Notes in regard to varying rates on amortization.*—The commission wishes to emphasize the desirability to the Government of providing for the special amortization of the foreign loan during periods of prosperity when revenues are greatly increased and for a corresponding decrease in amortization payments during periods of economic depression.

As has already been noted, a country like Peru, whose national income is so largely dependent on the production of raw materials, is subject to a greater extent than are industrialized nations to fluctuations in economic activity. This affects all, or practically all, Government revenues, but particularly those which are derived from export and import duties. It is highly desirable, therefore, that advantage should be taken of an increase in the revenues indicated which are the direct result of a period of prosperity to reduce the foreign debt more rapidly than the regular amortization schedule calls for. At such times this can be done without increasing the fiscal burden of the country, and, in fact, without the additional payments being seriously felt by the people of Peru. While the increased rate of amortization at such times will probably force up the market price of the bonds to be retired and cause certain additional costs to the Government for amortization, it should be remembered that the bonds are callable for this purpose at par if the market price should rise to or above par. Furthermore, the purchase of bonds, while raising the price for those retired, will also improve the credit of the nation, raise the price which the Government will receive for any additional series of bonds which it may wish to issue and hence reduce the cost to it of its long-term loans.

If the Government arranges to make special amortization payments in times of prosperity, the commission suggests that the Government in making its loan contracts, retain the right to suspend regular amortization payments, in whole or in part, in times of depression until the excess amortization has been exhausted, at which time it would be necessary for the Government to resume its regular amortization schedule.

The commission wishes to call attention at this point to the fact that in the organic budget law which they are recommending, provision is made for building up a reserve fund whose first object is to provide for such a special amortization of bonds as has just been discussed. The commission wishes to observe further that it would be an excellent policy for the Government to pursue to devote to extra amortization a substantial portion of any revenues received in excess of its annual budgeted receipts.

*A permanent banking connection.*—For a country which borrows more or less regularly abroad, it is a great advantage to select a single strong banking house as its banker and fiscal agent, and, as long as the banking house renders satisfactory service, to continue to do all of its financing through this banking house.

The attempt to deal through several banking houses or to change bankers and fiscal agents, except for some sound reason, almost invariably reacts unfavorably on the country that attempts to pursue such a policy. Some Latin-American countries that have done financing in New York have tried the policy of "shopping around"; that is, of getting an offer from one bank and then using that as a lever to obtain better terms from a competing bank. Such a policy, pursued for any considerable period of time, usually causes respectable banking houses to lose interest in the finances of the Government concerned. The commission believe, therefore, that the policy which appears to have been adopted by the Peruvian Government of establishing a definite connection with a single banking house as their agent is sound. This is said neither in commendation or in criticism of any of the fiscal agents or bankers of the Government, but as a general proposition, applicable to the case of other countries as well as to that of Peru.

*A unified internal loan.*—The commission in section 3 of this report have already made certain suggestions in regard to the desirability of a unified internal loan to be floated to refund bond issues and floating and other short-term debts at present outstanding. They believe that the general suggestions there made are suitable to be incorporated in the general financial policy of the Government. The Commission believes that substantially the same policy

should be adopted in the case of the internal debt as that which they have recommended for the external debt. In order to present these suggestions in definite and relatively complete form, an outline of them has been prepared, but, in order to avoid unnecessary duplication in this section of the report, this outline has been incorporated in a note at the end of this section.

In passing, the commission wishes to call attention to the fact that their recommendation of a pledge of specific revenues for the service of an internal debt is not new. The practice is at present in use in France where a method based on this idea has been worked out and put into effect, not by ordinary legislative action but by a constitutional amendment. Hence it can not be changed except by a similar amendment. The commission believes that similar action is desirable in Peru. A policy of this kind would greatly strengthen the position of the Government. Because of the lack of public confidence in the Government's internal issues as they are now constituted, they do not represent collateral which is very acceptable to the banks. If the policy recommended should be adopted and put into effect, it should substantially improve the position of the internal bonds of the Government as collateral and thus make it possible for the Government to borrow within the country in a free market at appreciably lower rates than it has been able to do heretofore.

The commission suggests that an excise tax on tobacco be employed as the specific security. It will be impossible, of course, to use such a tax for this purpose until after the existing loan secured by tobacco taxes has been retired.

If a new internal loan secured in this manner were issued it would be possible to reduce the nominal value of the national debt when converting the existing funded and floating debt into bonds of this new issue and yet, at the same time, to deal equitably with the holders of the existing debt. The commission makes no specific suggestions in regard to the terms of this conversion because it would be necessary to give consideration to conditions existing at the time the conversion were made, including such factors as: Current money rates, the yield to maturity on the outstanding interest-bearing obligations, the security which underlies each issue, the length of time that different items of the floating debt had been outstanding, and other details which would affect the equitable as well as the legal position of the creditors of the Government. Whenever the Government decides to issue the new securities and make the conversion, it will, of course, procure the counsel of competent bankers and attorneys to assist it in working out a sound and equitable basis for conversion.

*Financing local public improvements.*—It will be remembered that in connection with the enumeration of the different kinds of public works mentioned in an earlier paragraph, many of them are improvements which benefit primarily a single city or a limited region. Water, sewer, and street-lighting systems, and street car and bus lines are primarily for the benefit of the city or town within which they are located; although, in so far as the city may serve a larger area, extending in some instances many miles from its center, the improvement of the city affords a benefit to a much wider region. Some public improvements are, therefore, a logical charge against a certain city or region, and others should be paid for by the National Government, or by the National Government and the local government combined.

Another practical consideration arises in this connection which has a marked influence on public-credit policy. Since local communities need to obtain foreign capital for financing in whole or in part public works to be constructed within their areas, yet these communities are frequently so little known abroad that it would be difficult for them to borrow, if at all, except at ruinous rates of interest. In some cases of this kind it would be a sound and economical financial policy for the National Government to interpose its credit between the local governments and investors, substituting its bonds for theirs, and receiving from them in turn the funds needed to pay the service charges on the debt. This is substantially what has been done in connection with existing loans of Lima and Callao, but under a somewhat different and, on the whole, less satisfactory form than that just suggested.

The commission recommends, therefore, that when long-term funds are required by local governments, they be permitted to make a request to the National Government, through the public credit council, for these funds. This request should be accompanied by all information necessary to enable the council to form an opinion in regard to the desirability of the loan, and, if the loan is approved by them, of the steps necessary to procure the funds. The local gov-

ernment in question should provide any supplementary data requested by the council. Included in this plan should be a statement of the local revenues out of which the service of the loan is to be paid, whether those revenues are specifically pledged to the National Government and/or are to be collected by the National Government or by some agent thereof. There should also be a statement of rights the National Government might have and what powers it might exercise in case of a default in the payment of service charges or principal on the part of the local government. The council, in turn, should submit the request, all information received from the local government, its analysis of this information, its opinion in regard to the desirability of the loan requested and, if it approves the request, its plan for enabling the local government to obtain the needed funds, to the Minister of Finance for his approval and action. This opinion and plan should be given to the public press and should be printed in at least one periodical of general circulation in the community in question.

All funds provided by the National Government to local governments should be loans by the former to the latter. In so far as the public is concerned which purchases the bonds from the proceeds of which the funds are obtained, the National Government should be the sole and fully responsible debtor, and no default on the part of the local government to the National Government should, in any way, relieve the latter of its obligation to meet all charges on the bonds. The local governments should pay the national Government an amount sufficient to cover the necessary administrative expenses incurred.

By obtaining from the National Government in the manner described funds for public improvements which are required on a long-term basis, not only may the net cost to the local governments be reduced, but a coordinate development of the public works may be made possible, since it should be the function of the public credit council to give careful consideration to the purposes for which funds are sought in making its recommendations on requests for loans. Moreover, it should be a function of this council to advise as to what proportion of the cost of a given public improvement, if any, should be paid by the National Government.

A comprehensive program of expenditure for public works should be prepared to extend over a period of years. Money borrowed for this purpose can be spent to much better advantage if a unified and carefully coordinated program for such expenditures is made in advance. Unless the Peruvian people are very different from people in other countries, there will be much sectional and local prejudice and much "playing of politics" in connection with any program for public improvements which is to be financed. There is a danger that this situation may create a pressure on the Government to attempt the immediate borrowing of excessive amounts. The public-debt records of a number of countries are sad monuments to the unfortunate results of hasty and ill-considered construction of public works undertaken under heavy sectional political pressure. More than one such country to-day is burdened with interest and amortization payments on loans floated years ago, the proceeds of which were largely wasted. It is desirable, therefore, that a careful study be made of the probable need for public works, both local and national, so that a well-planned construction program may be developed and an adequate but not excessive amount of funds may be allocated to local needs as well as to national requirements.

Of course, in addition to the method discussed in the preceding paragraphs, it is also appropriate for cities or Provinces or for both to unite to float a joint loan. In such a case it would be desirable for them to guarantee the loan both jointly and severally, in order to be able to obtain the best possible terms, arranging in advance among themselves on the action to be taken in case of a default of any one of them. There is also no objection to the flotation of a loan by a single city or Province if it seems financially advisable to do so.

*Public credit council.*—Reference has already been made in this section to a public credit council and suggestions have been offered in regard to certain functions which the commission believes such a council could perform to advantage. In addition, however, to the work of analyzing and reporting on the requests for long-term credits by local governments, the commission believes that this council should perform other important duties. Any minister of finance and his staff must necessarily be occupied very largely with the current administration of the affairs of the finance ministry. As far as the commission have been able to ascertain, there are at present no members of the staff of the ministry of finance whose primary duty is to consider matters of "pub-

lic credit policy," as contrasted with the "administration of the public debt," and yet the former is quite as important as the latter in so far as the welfare of the country as a whole is concerned. In order to meet this need and provide the Minister of Finance with competent counsel in regard to matters of public credit policy, the commission suggests the formation of a "public credit council," to which all matters of public credit policy should be submitted. Among the subjects which should come before such a council are:

1. The need of long-term credits: (a) By the National Government; (b) by local governments through the National Government.

2. The conditions within the general policies outlined in this section, under which loans, both external and internal, may be floated.

3. The application of the temporary release from the amortization requirement suggested as a part of the contracts for both the external and internal loans including: (a) Time when such applications should be made; (b) duration of release; (c) amount of the release.

4. Time and conditions of refunding operations.

5. The application for long-term funds on the part of local governments.

6. Coordination of the disbursements to be made from long-term loans.

In addition, other related questions should be assigned to this council for consideration by the Minister of Finance. The public credit council should summarize the results of its investigations and its findings in form suitable for publication and give the public press copies thereof in the cases of proposed new bond issues and in other cases when the Minister of Finance believes that publicity is desirable. In all the reports which it prepares on particular projects it should give the reasons for its conclusions.

The major functions of this council should be, therefore: (1) To ascertain and analyze the facts in any case which may be submitted to it; (2) to prepare an opinion when an opinion may be necessary; (3) to give advice and counsel to the Minister of Finance in regard to questions of credit policy.

The public credit council should also be authorized to give advice to the municipalities and Provinces in regard to their financial problems, especially in regard to bond issues which they may float without the intervention of the National Government. Such advice, however, should be given only upon the request of the municipality or Province concerned.

The public credit council should be advisory only, without any administrative function. It will be unnecessary for it to operate continuously, but it should be called together at the discretion of the Minister of Finance, and must be called together and prepare a report before any action can be taken in regard to the issue or refunding of a long-term loan or to the issue of short-term notes. It should be a nonpolitical body. To this end the commission suggests that it be composed of three members selected as follows:

1. One member appointed by the Minister of Finance;

2. One member selected by the class A directors of the Central Reserve Bank of Peru;

3. One member elected by the class D directors of the Central Reserve Bank of Peru.

The directors of the Central Reserve Bank of Peru should not intervene in the work of this council in any way except to the extent of choosing the members indicated. This method of choosing members of the council is suggested simply as a means to secure men for the council who have the confidence of the banking and general business interests of the country. The commission suggests that the members of the council be selected for terms of six years and that, at the first meeting, the members determine by lot which one shall serve for 2 years only and which one for 4 years only under the first appointment, so that the term of 1 member will expire every 2 years thereafter.

The members should be eligible for reappointment and reelection, thus promoting a continuity of policy on the part of the council. The member appointed by the Minister of Finance should preside at all meetings but, in other respects, he should have only the same rights and voice in the affairs of the council as do the other members.

Each member should be paid S/.25 for each day of service given to the work of the council but not to exceed S/.2,000 per year, this amount being paid by the Ministry of Finance. Provision should also be made in the budget to provide the council with the necessary clerical and statistical staff. An appropriation to cover the fees and expenses of the council should be incorporated in the budget for each year.

*Public works council.*—While a discussion of the question of public works is beyond the scope of the work of the commission, there is one point in regard

thereto upon which the commission wishes to comment in passing because of its intimate relationship to the work of the public credit council. If the public credit council, whose functions are financial, is to perform its work to the full advantage of the country, it is necessary for it to have before it a program of public works prepared from the technical or engineering point of view. Unless it has such a program on hand it will be impossible for it to prepare thoroughly sound and well coordinated plans for the financing of a public works program. The commission, therefore, recommends that a public works council of five members be appointed to prepare such a technical program. At least a majority of the members should be engineers of high standing and be representative of the several branches of engineering in which technical advice is particularly needed.

NOTES IN REGARD TO AN INTERNAL BOND ISSUE

The commission make the following recommendations in regard to a new internal bond issue:

1. The loan to be issued in series as needed and within the limitations noted in subsequent paragraphs.

2. The loan to be issued in terms of the national currency, each series, however, being payable, principal and interest, in currency of the same weight and fineness as that in current use on the date when it was issued.

3. The maturity of each series to be less than the probable life of the public improvements to be effected with the proceeds thereof, and, in no event, to exceed 25 years.

4. A cumulative sinking fund to be established for each series on the basis of semiannual drawings at par, sufficient to retire the entire series by the date of maturity. The amount of the bonds to be amortized on each semiannual interest date to be purchased in the open market if the market price is less than par or to be drawn at par if the market price is at par or above. The entire amount of the sinking fund provided for in the amortization table to be expended for the purchase of bonds if their market price is below par. Any and all series to be callable, on any interest date, in whole or in part, at par, at the option of the Government, on 60 days' notice. If called in part, bonds to be drawn by lot.

5. The coupon rate of interest to be the same on all series unless a different rate is clearly desirable.

6. In order to obtain its funds at the lowest possible effective interest rates, the Government to pledge for the service of this loan, all series, the gross receipts of an excise tax on all tobacco sold within the country, until such time as the Government can borrow funds by means of these bonds on a free domestic market at an effective rate of 6 per cent per annum without pledge of revenues. The pledge of these revenues can not be given until the existing external loan secured by them is retired.

7. To serve as an automatic check on the excessive issue of bonds of this loan, no additional bonds of any series to be issued unless and until the average gross receipts of the excise tax on tobacco for the five years immediately preceding shall be one and three-fourths times the service charges on the series outstanding and the one to be issued combined.

The commission suggest the following method as one which would be simple, convenient and effective for the collection of the excise tax on tobacco:

1. The excise tax to be paid by means of stamps to be affixed to every container of tobacco, cigars, cigarettes, and other manufactures of tobacco, the stamps to be affixed at the time the tobacco is withdrawn from the Government factory, in the case of tobacco manufactured within the country, or at the time of its withdrawal from the customs house in the case of imported tobacco.

2. These stamps to be sold by an official especially appointed for this purpose by the minister of finance from a list of three men submitted to him by the Central Reserve Bank of Peru.

3. The proceeds from the sale of stamps to be deposited in the Central Reserve Bank of Peru in an account from which withdrawals may be made only by check signed according to law or contract. Withdrawals to be made from this fund only for the payment of service charges on the internal loan except as noted below.

4. Each month one-twelfth of the amount required for the annual service charges to be set aside until disbursed for this purpose; the balance received during this month to be transferred to the national treasury.

What has been said on an earlier page about the desirability to the Government of a flexible plan of amortization of the external funded debt, applies equally well in the case of the internal funded debt.

## REPORT ON THE PUBLIC CREDIT OF PERU, PART II: APPENDICES

### APPENDIX I

#### OFFICIAL DESCRIPTION OF BOND ISSUES FLOATED AFTER DECEMBER 31, 1900, AND RETIRED BEFORE DECEMBER 31, 1930

##### A. EXTERNAL LOANS

###### 1. Salt loan, 6 per cent, 1906, £600,000:

Contract: Executed on November 3, 1905, with the Deutsche Ueberseelsche Bank of Berlin, and approved by supreme resolution of November 15, 1905.

Laws authorizing loan: Nos. 43 and 44, both of December 30, 1904.

Amount issued: Six hundred thousand pounds.

Price paid Government: Ninety per cent.

Amortization: Drawing at par during the first three months of each year; first drawing on March 31, 1907. Matured coupons to be received in payment of customs duties. Balances of funds on hand, after meeting ordinary service, to be applied to extraordinary amortization, payable October 1 of the corresponding year.

Commission: One per cent for expenses and commission on sums paid for interest and amortization.

Dates of interest payments: April 1 and October 1.

Date of maturity: The Government reserves the right to call at par, at any time, the entire issue of bonds outstanding at such times, or the total issue of £600,000, subject to six months' written notice being served.

Security: Proceeds of tax on consumption of salt established by law of January 11, 1896.

Service on the loan: The Government shall purchase drafts from the Banco Alemán Transatlántico, at the rate prevailing on date of purchase, for remittance to Europe. The Government declares that the service of the loan shall not be less than 8 per cent annually, and any excess funds from the tax shall be applied to further amortizations. The contract fixes £48,000 annually for the service of the debt.

(Source: Annual Report of the Minister of Finance, 1906, Annex 134-135, pp. 214-216.)

Final redemption: The total amount of the bonds outstanding were redeemed in 1909 with the proceeds of the new 5½ per cent salt loan of 1909.

###### 2. Peruvian Steamship & Dock Co. of Callao mortgage loan, 6 per cent, 1909-1930, 8,200,000 francs (Lp. 350,000):

Contracts: Two, both dated August 25, 1909, between the Peruvian Steamship & Dock Co. of Callao and Société Anonyme de Chantiers et Ateliers de Saint Nazaire (Penhoet), Paris.

Laws authorizing loan: Law of October 25, 1903; No. 194 of February 6, 1906; No. 1059 of February 27, 1909; and supreme decrees of July 21, 1906; January 10, 1907; March 21, 1907; and August 18, 1909.

Amount issued; Fes. 8,200,000 in bearer bonds of Lp. 20 or 504 francs denomination.

Price paid government (company): One hundred per cent.

Amortization: Loan to be cancelled in 21 years by annual drawings at par during July, and payable on November 1 of each year, or by purchase of bonds on the open market under par.

Commission: One per cent.

Interest: Six per cent, payable semiannually in francs.

Date of maturity: According to the terms of the contract the loan was to be extinguished in 1930. It was furthermore provided that extraordinary amortizations could be made at 102 per cent, starting from the fifth year, and at par, starting from the seventh year; it being understood that these periods should start to run six months prior to the date on which payment on the first coupon was to be made.

Security: Mortgage on property of the company and pledge of the subvention granted by the Government to the company up to the amount of Lp. 30,000.

Service on the loan: Lp. 30,000 annually (756,000 francs) collected by the national company for tax collection and turned over to the Bank of Peru

and London, or any other trustee who might be designated subsequently. Annual service: 8½ per cent (Annual Report of the Director of Public Credit, 1918, p. 148).

(Source: Annual report of the director of public credit, 1916 and 1918.)

Final redemption: The total amount of bonds outstanding were redeemed at par in the first half of 1920, from profits of the company, taking advantage of the favorable rate of exchange prevailing at that time.

The sums due from the Government, as subsidies, have been charged against the Government on the company's books, but are still unpaid. The decree law of January 8, 1931, provides the *modus operandi* for settling this debt of the Government to the Peruvian Steamship & Dock Co. of Callao.

(Source: Memorandum from director of accounting department of the ministry of finance, and information furnished by Mr. M. L. Mulanovich, former manager of the company.)

3. Peruvian Government, 5½ per cent salt loan, 1909-1938, £1,200,000:

Contract: Executed on December 11, 1909, with "Banque de Paris et des Pays-Bas" and "Société Générale pour favoriser le développement du Commerce et de l'Industrie en France."

Law authorizing loan: No. 1082 of August 21, 1909.

Amount issued: One million two hundred thousand pounds in bearer bonds of £500, £100, and £20 denominations.

Price paid Government: Ninety-four per cent.

Amortization: One and one-half per cent cumulative sinking fund for redemption of bonds by semiannual drawings at par.

Commission: One-half per cent.

Dates of interest payments: February 15 and August 15 of each year.

Date of maturity: August 15, 1938; or callable at par on any interest date.

Security: Specific lien of salt revenue.

Service on the loan: Forty-three thousand pounds. Payment of this amount to be made semiannually in the offices of J. Henry Schroeder & Co., London, through the Salt Company of Peru.

(Source: "Balance y Cuenta General de la República," 1927, Ministry of Finance, pp. 186-7.)

Final redemption: The total amount of bonds outstanding in 1927-28 were redeemed with the proceeds of the Peruvian national 6 per cent loan.

4. Callao municipal loan, 8 per cent, 1910-1931, £100,000:

Contract: Executed on April 6, 1910, between the municipality of Callao and the Bank of Peru and London.

Laws authorizing loan: Law of October 14, 1892, and No. 4126. This loan was nationalized by the latter law.

Amount issued: One hundred thousand pounds in bearer bonds of £100 denominations.

Price paid Government: Ninety-five per cent.

Amortization: 3 per cent cumulative sinking fund. Drawings by lot in April and October of each year.

Commission: One-half per cent.

Date of maturity: June 30, 1931.

Security: Municipal property and revenues.

Service on the loan: The Bank of Peru and London receives fortnightly from the Company for Tax Collection the amount of £500 for the service of this loan.

(Source: Balance y Cuenta General de la República, 1925, Ministry of Finance, pp. 529-30.)

Final redemption: The total amount of bonds outstanding were retired in 1927 with the proceeds of the new Province of Callao guaranteed and secured sinking fund 7½ per cent gold bonds of 1927-1944.

5. Republic of Peru, 5 per cent gold bonds loan, 1920-1946, £720,620:

Contract: Executed on May 24, 1921, with Ethelburga Syndicate (Ltd.).

Law authorizing loan: No. 4131 of June 10, 1920. The issue of these bonds was authorized for the purpose of enabling the Government to acquire the property of the Lima-Huacho Railway.

Amount issued: £720,620 in bearer bonds of £10 denominations.

Price paid Government: 100 per cent.

Amortization: Semiannual drawings in April and October of each year.

Commission: 1 per cent.

Dates of interest payments: January 1 and July 1 of each year.

Date of maturity: January 1, 1946, or prior to that date, at par.

Security: Revenue from opium and by-products. Also free balance (after providing for salt loan) of proceeds from salt monopoly.

Service of the loan: £24,915 paid semiannually to the Anglo-South American Bank, London, for the service on this loan.

(Source: Balance y Cuenta General de la República, 1927, Ministry of Finance, p. 187.)

Final redemption: The total amount of bonds outstanding were retired with the proceeds of the 6 per cent Peruvian national loan in 1927-28.

6. Bonds of the external debt, 8 per cent, 1922-1932 \$2,500,000.

Contract: Executed July 14, 1922, by the Government with the Guaranty Trust Co. of New York, the Italian Bank (Banco Italiano) as trustee, and the company for tax collection.

Laws authorizing loan: No. 4387 of November 11, 1921, and No. 4544 of November 18, 1922, for an amount not to exceed Lp. 700,000.

Amount issued: \$2,500,000.

Price paid Government: 95 per cent.

Amortization: 10 per cent per annum.

Commission: 1 per cent on all amounts disbursed for service or cancellation of the issue, in addition to other fixed sums for other expenditure.

Interest: 8 per cent payable semiannually.

Date of maturity: Issue matures in 1932, but may be redeemed prior to that date, in whole or in part, at the option of the Government, at par plus accrued interest, upon 75 days' notice, and deposit of amounts to be refunded to holders.

Security: Petroleum revenue.

Paying agents: The Guaranty Trust Co. of New York.

(Sources: Balance y Cuenta General de la República, 1923, Ministry of Finance, p. 477; Annual report of Minister of Finance, 1922, annex, first part, 11-13, 35-7, 612-42.)

Final redemption: The total amount of bonds outstanding was redeemed in 1925 with the proceeds of the Republic of Peru 15-year external sinking fund secured 7½ per cent gold bonds of 1925-1940.

7. Republic of Peru, external sinking fund secured gold bonds sanitation loan, 8 per cent, series of 1924-1944, \$7,000,000.

Contract: Executed on October 7, 1924, with White, Weld & Co., and Blyth, Witter & Co.

Laws authorizing loan: No. 4126 of May 6, 1920, and No. 4603 of December 12, 1922.

Amount issued: \$7,000,000 in bonds of \$1,000 and \$500 denominations.

Price paid Government: 90 per cent.

Amortization: The excess over and above the service of interest received by the paying agent each half year constitutes the sinking fund which is to be applied to the purchase of bonds on the open market at a maximum price of 110 per cent.

Commission: 1 per cent.

Dates of interest payments: April 1 and October 1 of each year.

Date of maturity: October 1, 1944, or at any interest date prior to that date at 110 per cent.

Security: Sanitation revenues.

Service on the loan: Paying agents to receive \$350,000, half-yearly from the revenue administration company, to meet the service on this loan.

Paying agents: The Guaranty Trust Co. of New York.

(Source: Balance y Cuenta General de la República, 1927, Ministry of Finance, page 183.)

Final redemption: The total amount of bonds outstanding were retired in 1927-28 with the proceeds of the Peruvian 6 per cent national loan.

8. Republic of Peru, 15-year external sinking fund secured 7½ per cent bonds, 1925-1940, \$7,500,000.

Contract: Executed on November 5, 1925, with White, Weld & Co. and Blyth, Witter & Co.

Law authorizing loan: No. 5249 of November 3, 1925.

Amount issued: \$7,500,000 in \$1,000 and \$500 bonds.

Price paid Government: 90 per cent.

Amortization: By purchase on the open market at maximum price of 107½ per cent, or by drawings at same price.

Commission: 1 per cent.

Dates of interest payments: May 1 and November 1 of each year.

Date of maturity: November 1, 1940, or prior to that date at any interest rate, at 107½ per cent, plus accrued interest.

Security: Revenues from petroleum and by-products.

Service on the loan: Paying agents to receive from the revenue collecting company, semiannually, funds necessary to take care of the service on this loan.

Paying agents: The Guaranty Trust Co. of New York.

(Source: Balance y Cuenta General de la República, 1927, Ministry of Finance, page 184.)

Final redemption: All bonds outstanding were retired in 1927-28 with the proceeds of the 6 per cent Peruvian national loan.

9. Republic of Peru, external sinking fund secured gold bonds sanitation loan, 8 per cent, series of 1926-1944, \$2,000,000.

Contracts: Executed October 7, 1924, and supplementary contract of June 3, 1926, entered into between the Government and White, Weld & Co. and Blyth, Witter & Co.

Laws authorizing loan: No. 4126 of May 6, 1920, and No. 4603 of December 12, 1922.

Amount issued: \$2,000,000 in \$1,000 and \$500 denominations.

Price paid Government: 96 per cent.

Amortization: The excess over and above the service of interest received by the paying agents, each half year, to be applied to the purchase of bonds on the open market at a maximum price of 110 per cent.

Dates of interest payments: April 1 and October 1 of each year.

Date of maturity: October 1, 1944, or before at any interest date, at 110 per cent.

Security: Sanitation revenues.

Service on this loan: The paying agents are to receive from the revenue collecting company, semiannually, the amount of \$120,780 to meet the service on this loan.

Paying agents: The Guaranty Trust Co. of New York.

(Source: Balance y Cuenta General de la República, 1927, Ministry of Finance, pages 183-4.)

Final redemption: All bonds outstanding were redeemed in 1927-28 with the proceeds of the 6 per cent Peruvian national loan.

10. Republic of Peru, external secured sinking fund 7½ per cent gold bonds, series of 1926-1956, \$16,000,000.

Contract: Executed August 19, 1926, with White, Weld & Co. and Blyth, Witter & Co.

Law authorizing issue: No. 5461 of August 14, 1926.

Amount issued: \$16,000,000 in \$1,000 and \$500 bonds.

Price paid Government: 93 per cent.

Amortization: By purchase of bonds on the open market at maximum price of 107½ per cent, or by drawings by lot at same price.

Commission: 1 per cent.

Dates of interest payments: March 1 and September 1 of each year.

Date of maturity: September 1, 1956, or before, at any interest date, at 107½ per cent, plus accrued interest.

Security: The following revenues: Tax on revenues yielded by intangible capital, except dividends on shares; business and professional license tax; real property transfer tax; inheritance tax; 30 per cent of departmental revenues set aside for public education; fiscal mining stamps; hydroelectric power tax; lighthouse fees; special stamped paper for customs and port taxes; surtax on consumption of sugar.

Service on the loan: The paying agents are to receive, semiannually, from the revenue collecting company, the necessary funds to meet the service on this loan.

Paying agents: The Guaranty Trust Co. of New York.

(Source: Balance y Cuenta General de la República, 1927, Ministry of Finance, pages 18-45.)

Final redemption: All bonds in circulation in 1927-28 were retired with the proceeds of the 6 per cent Peruvian national loan.

11. Dreyfus French claims, 1921, Fcs. 25,000,000.

Authorizing law: No. 1800, January 21, 1913.

Agreement: Of February 2, 1914.

Arbitrator's award: Of The Hague Tribunal, October 11, 1921.

Amount of claim: Fcs. 25,000,000 to be distributed among creditors: Dreyfus Bros. & Co., Financial and Commercial Co. of the Pacific, widow of Philon Bernal (Hautier), and Gillard, pro rata.

Amortization: Fcs. 5,000,000 per annum.

Interest: 5 per cent on yearly amortizations not paid in due course.

(Source: Balance y Cuenta General de la República, 1925, Ministry of Finance, page 533.)

## ADDITIONAL DATA

The Hague Court, to whose decision the Peruvian Government was authorized by law No. 1800, to submit the claim, decided in its award of October 11, 1921, that the Peruvian Government was to pay to the French Government, for account of the Dreyfus creditors, the sum of Fcs. 25,000,000 at the rate of Fcs. 5,000,000 per annum, the outstanding amounts to accrue interest at 5 per cent per annum.

Complying with the above decision, payments have been made as follows:

	Date	Francs	Lempira
First yearly amortization.....	Jan. 3, 1923	5,000,000.00	79,365.0.79
Second yearly amortization.....	Feb. 12, 1925	5,000,000.00	71,877.7.87
Third yearly amortization.....	Mar. 7, 1925	5,000,000.00	59,973.4.07
Fourth yearly amortization.....	Dec. 30, 1925	5,000,000.00	50,603.6.75
Fifth yearly amortization.....	Oct. 9, 1926	5,000,000.00	36,050.2.58
Interest.....	Oct. 14, 1926	1,789,728.02	13,076.9.92
Interest.....	Nov. 13, 1926	2,416,327.64	21,574.3.53
		29,206,053.66	332,521.5.51

*Dates of drafts on the treasury*

	Date	Lempira
No. 897.....	Apr. 30, 1923	79,365.0.79
No. 217.....	Feb. 12, 1925	71,877.7.87
No. 366.....	Mar. 7, 1925	59,973.4.07
No. 3,400.....	Dec. 30, 1925	50,603.6.75
No. 1,340.....	Oct. 9, 1926	36,050.2.58
No. 1,387.....	Oct. 14, 1926	13,076.9.92
No. 1,809.....	Nov. 13, 1926	21,574.3.53

The above-mentioned amounts were included in the budgets and paid out of budget revenues.

(Source: Data furnished to the commission of financial advisers by the Ministry of Finance.)

## B. INTERNAL LOANS—LOANS IN PERUVIAN POUNDS

1. Guadalupe High School loan, 8 per cent, 1908-1928, Lp. 80,000.

Contract: With office of deposits and consignments.

Law authorizing loan: No. 561 of October 12, 1907.

Amount issued: Lp. 80,000 in bonds of Lp. 50 each.

Price paid Government: 98 per cent.

Amortization: Semiannually, and by lot.

Commission:  $\frac{1}{2}$  per cent.

Dates of interest payments: March 31, June 30, September 30, and December 31.

Date of maturity: April 1, 1928.

Security: Lp. 7,800 annually from land taxes of the Province of Lima.

Service on the loan: Service taken care of by office of deposits and consignments.

(Source: Balance y Cuenta General de la República, 1927, Ministry of Finance, page 190.)

Final redemption: The bonds in circulation were finally retired in 1928 with funds from the budget.

2. Peruvian Steamship & Dock Co. of Callao loan, 8 per cent, 1913-1941, Lp. 250,000.

Contract: Executed on November 14, 1913, between the Peruvian Steamship & Dock Co. of Callao, the Government of Peru, and the office of deposits and consignments.

Laws authorizing loan: No. 1798 of January 11, 1913; No. 1845 of October 25, 1913; and supreme resolutions of November 11 and 13, 1913.

Amount issued: Lp. 250,000 in bearer bonds of Lp. 100 and Lp. 50 each.

Price paid Government (company): 100 per cent.

Amortization: Loan to be paid off in 28 years 1 per cent annual cumulative sinking fund from December 31, 1914, to be applied by drawings at par or by purchase of bonds on the open market, under par, at the discretion of the company. Total or partial extraordinary amortizations may be effected at par, subject to 15 days' notice.

Commission:  $\frac{1}{4}$  per cent for the office of deposits and consignments, payable by the Peruvian Steamship & Dock Co. of Callao.

Dates of interest payments: June 30 and December 31 of each year.

Date of maturity: The loan becomes extinguished in 1941, however, total or partial extraordinary amortizations may be effected at par, subject to 15 days' notice to that effect.

Security: (1) Fiscal subsidy of Lp. 22,500 annually, which in turn was guaranteed by the tax on revenue stamps; (2) first mortgage on the rock and second mortgage on its five steamers.

Service on the loan: The company for tax collection was to pay to the office of deposits and consignments the sum of Lp. 937.5 fortnightly. (The commission and other expense items are paid directly by the Peruvian Steamship & Dock Co. of Callao.)

(Source: Annual reports of the director of public credit, 1916 and 1918.)

Final redemption: The annual report of the director of public credit for 1918 (pp. 149-150) states that "according to data obtained by the Peruvian Steamship & Dock Co. of Callao, the loan of Lp. 350,000 remains unchanged, and the second (Lp. 250,000) has been totally liquidated in accordance with a resolution of the meeting of the shareholders, from the funds of the company."

3. Sanitation bonds, 8 per cent, series A, 1923, Lp. 400,000.

Contract: With Italian Bank, Lima.

Law authorizing loan: No. 4126 of May 12, 1920.

Price paid Government: 95 per cent.

Amortization: 10 per cent.

Security: Public health taxes.

(Source: Balance y Cuenta General de la República, 1923, Ministry of Finance, page 488.)

Final redemption: The total amount of the bonds outstanding were redeemed in 1924 with the proceeds of the sanitation loan, 8 per cent, series of 1924-1944. Tobacco revenue bonds, 8 per cent, Lp. 300,000.

Laws authorizing loan: Nos. 2886 and 4728; and supreme resolutions of April 23, 1924, and May 22, 1925.<sup>1</sup>

Authorized issue: Lp. 300,000.<sup>2</sup>

Price paid Government: 100 per cent.

Amortization: Quarterly, by means of a 2 per cent cumulative sinking fund.

Security: Tobacco revenues.

Service on the loan: Taken care of by the office of deposits and consignments.

(Source: Balance y Cuenta General de la República, 1925, Ministry of Finance, page 534.)

Final redemption: The total amount of the bonds outstanding in 1927 was redeemed with the proceeds from the 6 per cent Peruvian national loan.

#### APPENDIX

#### OFFICIAL TABLES OF BOND ISSUES OUTSTANDING AT THE END OF EACH YEAR AND OF AMORTIZATIONS DURING EACH YEAR FROM DECEMBER 31, 1922, TO DECEMBER 31, 1930, INCLUSIVE

##### C. CHARTS

1. Publicly floated bond issues, dollars.
2. (a) Publicly floated bond issues, pounds sterling (external loans); (b) publicly floated bond issues, pounds sterling (internal loans).
3. Publicly floated bond issues, Peruvian pounds.
4. Publicly floated bond issues, all issues, Peruvian pounds.

<sup>1</sup> The date of Apr. 23, 1924, on the above-mentioned supreme resolution, as shown on the "Balance y Cuenta General de la República" is probably an error. Refers probably to the supreme resolution of Mar. 26, 1924.

<sup>2</sup> Law No. 2886 does not fix any specific amount. Law No. 4728 fixes a maximum of Lp. 100,000, supreme resolutions of Mar. 26, 1924, and May 22, 1925, based on law No. 2886, authorize issues of Lp. 200,000 and Lp. 100,000, respectively.

Amount of funded debt outstanding as of December 31 of each of the following years and the amount of the amortization during the several years

EXTERNAL LOANS IN POUNDS STERLING

		1922	1923	1924	1925	1926	1927	1928	1929	1930
Peruvian Government, 5½ per cent salt loan, 1909-1938; £1,200,000	Amount.....	894,820	849,140	811,400	771,680	729,680	685,360	638,560	638,560	638,560
	Amortization.....	-----	35,680	37,680	39,780	42,000	44,320	46,800	-----	-----
Callao municipal loan, 8 per cent, 1910-1931; £100,000	Amount.....	69,100	63,300	57,100	52,500	48,000	48,000	-----	-----	-----
	Amortization.....	-----	5,800	6,200	4,600	4,500	48,000	-----	-----	-----
Honorab! provincial council of Lima, municipal loan, 5 per cent, 1911-1935; £600,000. (City of Lima provincial council 5 per cent 1st mortgage loan.)	Amount.....	565,100	557,400	553,300	510,500	531,200	521,400	512,400	502,700	401,800
	Amortization.....	-----	7,700	4,100	12,800	9,300	9,800	9,000	9,700	10,900
Republic of Peru, 5 per cent gold bonds loan, 1920-1946; £720,620	Amount.....	699,000	677,380	670,000	653,560	644,980	627,180	598,780	-----	-----
	Amortization.....	-----	21,620	7,270	16,530	8,580	17,800	28,400	598,780	-----
Peruvian Government, 7½ per cent guano loan, 1922-1948; £1,250,000	Amount.....	530,000	1,250,000	1,231,300	1,211,100	1,189,600	1,166,200	1,141,200	1,114,200	1,085,300
	Amortization.....	-----	-----	18,700	20,200	21,600	23,300	25,000	27,000	28,900
Peruvian national loan, 6 per cent, external sinking fund gold bonds, second series, 1928-1961; £2,000,000	Amount.....	-----	-----	-----	-----	-----	-----	2,000,000	1,979,700	1,958,200
	Amortization.....	-----	-----	-----	-----	-----	-----	-----	20,300	21,500
Total in sterling pounds.....	Amount.....	2,748,020	3,397,220	3,323,250	3,223,340	3,143,360	3,000,140	4,890,940	3,596,600	3,535,300
	Amortization.....	-----	70,800	73,970	83,910	85,980	143,220	109,200	1,294,340	91,300

EXTERNAL LOANS IN DOLLARS

Bonds of the external debt, 8 per cent, 1922-1932; \$2,500,000	Amount.....	2,376,000	2,135,000	1,787,500	-----	-----	-----	-----	-----	-----
	Amortization.....	-----	240,000	347,500	1,787,500	-----	-----	-----	-----	-----
Republic of Peru, external sinking fund, secured gold bonds—sanitation loan, 8 per cent, series of 1924-1944; \$7,000,000	Amount.....	-----	-----	6,985,000	6,047,500	5,534,500	5,284,500	-----	-----	-----
	Amortization.....	-----	-----	-----	937,500	513,000	250,000	5,284,500	-----	-----
Republic of Peru, 15-year, external sinking fund, secured 7½ per cent bonds, 1925-1940; \$7,500,000	Amount.....	-----	-----	-----	7,500,000	7,000,000	6,327,000	-----	-----	-----
	Amortization.....	-----	-----	-----	-----	500,000	673,000	6,327,000	-----	-----
Republic of Peru, external sinking fund, secured gold bonds—sanitation loan, 8 per cent, series of 1926-1944; \$2,000,000	Amount.....	-----	-----	-----	-----	1,969,000	1,881,000	-----	-----	-----
	Amortization.....	-----	-----	-----	-----	-----	88,000	1,881,000	-----	-----
Republic of Peru, external secured sinking fund, 7½ per cent gold bonds, series of 1926-1956; \$16,000,000	Amount.....	-----	-----	-----	-----	16,000,000	15,745,000	-----	-----	-----
	Amortization.....	-----	-----	-----	-----	-----	255,000	15,745,000	-----	-----
Republic of Peru, secured 7 per cent sinking fund, gold bonds, 1927-1959; \$15,000,000	Amount.....	-----	-----	-----	-----	-----	14,925,000	14,779,000	14,618,500	14,447,500
	Amortization.....	-----	-----	-----	-----	-----	-----	146,000	160,500	171,000

<sup>1</sup> Indicates amount obtained by taking amounts outstanding shown in the respective "Cuenta General" and adding the amounts given on page 188 of the "Cuenta General" for 1927 as amortization.

(Source: Table signed by J. E. Gutierrez, bearing seal of ministry of finance, accounting department, public debt.)

Amount of funded debt outstanding as of December 31 of each of the following years and the amount of the amortization during the several years—  
Continued

## EXTERNAL LOANS IN DOLLARS—continued

		1922	1923	1924	1925	1926	1927	1928	1929	1930
Peruvian national loan, 6 per cent external sinking fund, gold bonds first series, 1927-1960; \$50,000,000	Amount.....						50,000,000	49,492,500	48,954,500	48,383,000
	Amortization.....						507,500	538,000	571,500	
Peruvian national loan, 6 per cent, external sinking fund, gold bonds, second series of 1928-1961; \$25,000,000	Amount.....						25,000,000	24,746,500	24,469,500	24,469,500
	Amortization.....							253,500	277,000	
Province of Callao, guaranteed and secured sinking fund, 7½ per cent gold bonds, 1927-1944; \$1,500,000	Amount.....						1,474,000	1,418,000	1,359,500	1,249,000
	Amortization.....							58,000	58,500	110,500
Total in dollars.....	Amount.....	2,375,000	2,135,000	8,772,500	13,547,500	30,503,500	95,030,500	90,689,500	89,679,000	88,549,000
	Amortization.....		240,000	347,500	2,725,000	1,013,000	1,266,000	29,947,000	1,010,500	1,130,000

## INTERNAL DEBT IN POUNDS STERLING

Republic of Peru, 8 per cent, special banking internal loan, 1924-1944; £500,000	Amount.....			500,000	488,900	476,800	463,800	449,700	434,500	418,000
	Amortization.....				11,100	12,000	13,100	14,100	15,200	16,500
Mortgage bonds of the Huando-Esperanza Corporation, 1925-1946; £200,000	Amount.....						117,000	111,000	108,000	102,000
	Amortization.....							6,000	3,000	6,000
Total in pounds sterling.....	Amount.....			500,000	488,900	476,800	580,800	570,600	542,500	520,000
	Amortization.....				11,100	12,000	13,100	20,100	18,200	22,500

## INTERNAL DEBT IN PERUVIAN CURRENCY (L. R.)

Republic of Peru, consolidated 1 per cent loan of 1890; Lp. 2,660,645	Amount.....	331,168	331,168	331,168	320,650	320,650	329,650	298,806	297,688	200,025
	Amortization.....				1,518			30,844	1,118	1,063
Republic of Peru redeemable debt of 1898; Lp. 4,698,125	Amount.....	393,565	393,565	253,730	214,165	180,580	150,520	97,105	88,890	75,135
	Amortization.....			139,835	39,565	33,585	30,060	53,415	8,215	13,755
Guadalupe high school loan, 8 per cent, 1908-1928; Lp. 80,000	Amount.....	32,050	26,800	21,100	14,900	8,250	1,000			
	Amortization.....		5,250	5,700	6,200	6,650	7,250	1,000		
Republic of Peru 7 per cent cedulas of the consolidated internal debt of 1918; Lp. 3,455,970	Amount.....	2,067,380	2,400,160	2,384,170	2,543,320	2,693,110	2,770,770	3,143,280	3,133,550	3,124,320
	Amortization.....			15,990					9,730	9,230
Sanitation bonds, 8 per cent, series A, 1923; Lp. 400,000	Amount.....		325,000	325,000						
	Amortization.....									

Huacho 8 per cent sanitation loan of 1923; Lp. 30,000.	Amount	28,500	26,100	23,600	20,900	17,600	14,000	10,300	8,000
	Amortization		2,400	2,500	2,700	3,300	3,600	3,700	2,300
Tobacco revenue bonds, 8 per cent, 1924; Lp. 400,000.	Amount		108,000	277,600	385,000				
	Amortization					385,000			
Republic of Peru, internal 8 per cent postal loan, 1924-1944; Lp. 100,000.	Amount		97,600	92,500	87,500	82,500	77,500	72,500	67,500
	Amortization			5,000	5,000	5,000	5,000	5,000	5,000
Republic of Peru, internal 8 per cent bonds, 1929-1949; Lp. 1,600,000.	Amount							561,300	1,088,800
	Amortization								
Internal public works loan, 6 per cent, 1930-1953; S/.18,000,000.	Amount								448,600
	Amortization								
(Source: Table signed by J. E. Gutierrez, bearing seal of ministry of finance, accounting department, public debt.)									
Collection department of office of deposits and consignments loan, 10 per cent 1927; Lp. 298,600.	Amount					298,600	298,600	298,600	298,600
	Amortization								
(Source: Document specially prepared by the office of deposits and consignments, collection department.)									
Children's hospital bonds, 8 per cent, 1929; Lp. 60,000.	Amount							58,800	57,500
	Amortization								1,300
(Source: Data furnished by the Banco Italiano.)									
Total in Peruvian pounds	Amount	2,824,163	3,505,193	3,221,768	3,495,735	3,704,990	3,650,840	3,920,291	5,465,170
	Amortization		5,260	488,925	54,783	47,935	430,610	93,859	32,648

NOTE.—The issue of tobacco revenue bonds was authorized up to the amount of Lp. 400,000 by supreme resolutions of April 23, 1924, May 22, 1925, and February 3, 1926, as well as by laws No. 2886 and No. 4728 Lp. 110,000 of these bonds had been issued as of December 31, 1924; Lp. 285,000 as of December 31, 1925, and Lp. 460,000 as of December 31, 1926.

## Amortization and interest table

Date	Interest	Amortization at 105 per cent	Bonds nominal value	Balance due
				\$15,000,000
September, 1927	\$525,000	\$74,550	\$71,000	14,929,000
March, 1928	522,515	77,700	74,000	14,855,000
September, 1928	519,925	79,800	76,000	14,779,000
March, 1929	517,265	82,950	79,000	14,700,000
September, 1929	514,500	85,575	81,500	14,618,500
March, 1930	511,648	88,200	84,000	14,534,500
September, 1930	508,708	91,350	87,000	14,447,500
March, 1931	505,663	94,500	90,000	14,357,500
September, 1931	502,513	97,125	92,500	14,265,000
March, 1932	499,275	100,800	96,000	14,169,000
September, 1932	495,915	104,475	99,500	14,069,500
March, 1933	492,433	107,100	102,000	13,967,500
September, 1933	488,863	111,300	106,000	13,861,500
March, 1934	485,153	114,975	109,500	13,752,000
September, 1934	481,320	118,650	113,000	13,639,000
March, 1935	477,365	122,850	117,000	13,522,000
September, 1935	473,270	126,525	120,500	13,401,500
March, 1936	469,053	130,725	124,500	13,277,000
September, 1936	464,695	135,450	129,000	13,148,000
March, 1937	460,180	139,650	133,000	13,015,000
September, 1937	455,525	144,900	138,000	12,877,000
March, 1938	450,695	149,100	142,000	12,735,000
September, 1938	445,725	154,350	147,000	12,588,000
March, 1939	440,580	159,600	152,000	12,436,000
September, 1939	435,260	164,325	156,500	12,279,500
March, 1940	429,783	170,025	162,500	12,117,000
September, 1940	424,095	175,875	167,500	11,949,500
March, 1941	418,233	181,650	173,000	11,776,500
September, 1941	412,178	187,950	179,000	11,597,500
March, 1942	405,913	193,725	184,500	11,413,000
September, 1942	399,455	200,550	191,000	11,222,000
March, 1943	392,770	207,375	197,500	11,024,500
September, 1943	385,858	214,200	204,000	10,820,500
March, 1944	378,718	221,025	210,500	10,610,000
September, 1944	371,350	228,000	218,000	10,392,000
March, 1945	363,720	234,250	225,000	10,167,000
September, 1945	355,845	244,125	232,500	9,934,500
March, 1946	347,708	252,525	240,500	9,694,000
September, 1946	339,290	260,400	248,000	9,446,000
March, 1947	330,610	269,325	256,500	9,189,500
September, 1947	321,633	278,250	265,000	8,924,500
March, 1948	312,358	287,700	274,000	8,650,500
September, 1948	302,768	297,675	283,500	8,367,000
March, 1948	292,845	307,125	292,500	8,074,500
September, 1949	282,608	317,100	302,000	7,772,500
March, 1950	272,038	328,125	312,500	7,460,000
September, 1950	261,100	338,625	322,500	7,137,500
March, 1951	249,813	350,175	333,500	6,804,000
September, 1951	238,140	362,250	345,000	6,459,000
March, 1952	226,065	373,800	356,000	6,103,000
September, 1952	213,605	386,400	368,000	5,735,000
March, 1953	200,725	399,000	380,000	5,355,000
September, 1953	187,425	412,650	393,000	4,962,000
	388,150	811,650	773,000	

*Amortization and interest table—Continued*

Date	Interest	Amortization at 105 per cent	Bonds nominal value	Balance due
March, 1954.....	\$173, 670	\$426, 300	\$406, 000	\$4, 556, 000
September, 1954.....	159, 460	440, 475	419, 500	4, 136, 500
	\$333, 130	\$866, 775	\$825, 500	
March, 1955.....	144, 778	455, 700	434, 000	3, 702, 500
September, 1955.....	129, 588	470, 400	448, 000	2, 254, 500
	274, 366	926, 100	882, 000	
March, 1956.....	113, 908	485, 625	462, 500	2, 792, 000
September, 1956.....	97, 720	502, 425	478, 500	2, 313, 500
	211, 628	988, 050	941, 000	
March, 1957.....	60, 973	519, 225	494, 500	1, 819, 000
September, 1957.....	63, 665	536, 025	510, 500	1, 308, 500
	144, 638	1, 055, 250	1, 005, 000	
March, 1958.....	45, 798	554, 400	528, 000	780, 500
September, 1958.....	27, 318	572, 775	545, 500	235, 000
	73, 116	1, 127, 175	1, 073, 500	
March, 1959.....	8, 225	246, 750	235, 000	-----

## APPENDIX 3. OFFICIAL DESCRIPTION OF BOND ISSUES OUTSTANDING AS OF DECEMBER 31, 1930

## A. EXTERNAL LOANS—DOLLAR LOANS

1. Republic of Peru, secured 7 per cent sinking fund gold bonds, 1927-1959, \$15,000,000.

Contracts: Executed March 15, 1927, with J. & W. Seligman & Co. and F. J. Lilsman & Co.

Laws authorizing issue: No. 5654 of February 4, 1927, and No. 5743 of March 12, 1927.

Amount issued: \$15,000,000 in bearer bonds of \$1,000 and \$500 denominations.

Price paid Government: 90 per cent.

Amortization: A semiannual cumulative sinking fund of 1 per cent, as per table, is provided for the purpose of effecting drawings at 105 per cent semi-annually.

Commission: One-fourth per cent on the amount of the services.

Dates of interest payments: September 1, 1959; callable on any interest date at 105 per cent, plus accrued interest to the date of redemption.

Security: Proceeds of tobacco tax.

Service on the loan: The office of deposits and consignments pays to J. & W. Seligman & Co., fiscal agents, semiannually, the sum of \$600,000 in monthly installments of \$100,000 to cover the service on this loan.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, page 259.)

2. Province of Callao, guaranteed and secured sinking fund 7½ per cent gold bonds, 1927-1944, \$1,500,000. (Empréstito Provincia del Callao, 7½, 1927.)

Contract: Executed on April 25, 1927, between the municipality of Callao and Alvin H. Frank & Co.; Hunter, Dulin & Co., and J. & W. Seligman & Co. This contract was approved by the Government on April 25, 1927.

Law authorizing loan: No. 5801 of April 13, 1927.

Amount issued: \$1,500,000 in bearer bonds of \$1,000 and \$500 denominations.

Price paid government (municipality): 92½ per cent.

Amortization: Semiannual amortizations on January 1 and July 1 by means of a sinking fund to be applied to the purchase of bonds on the open market at a price not to exceed 107½ per cent, or by drawings at the latter price.

Commission: One-eighth per cent on the total amount of the service.

Dates of interest payments: January 1 and July 1 of each year.

Date of maturity: January 1, 1944, or callable prior to that date at 107½ per cent, plus accrued interest.

Security: Municipal revenues; certain property of the municipality and the guarantee of the national Government which contributes with Lp. 24,000 of the budget revenues to the service on this loan (see note below).

Service on the loan: Effected through the trustees: Central Hanover Bank & Trust Co., and the fiscal agents, J. & W. Seligman & Co., by quarterly remittances of \$41,250.

Paying agents: J. & W. Seligman & Co. and Central Hanover Bank & Trust Co.

(Source: Manuscript from the Ministry of Finance, public debt, accounting department.)

NOTE.—The contract of issue of bonds, trust, and fiscal agency agreement, dated April 25, 1927 (English version), between the Republic of Peru, Province of Callao, and Alvin H. Frank & Co., and the Central Union Trust Co. of New York, and J. & W. Seligman & Co., fiscal agents; for the Province of Callao, \$1,500,000 guaranteed and secured sinking fund  $7\frac{1}{2}$  per cent gold bond loan, states as follows, under clause 10:

"Tenth: The Republic of Peru constitutes itself guarantor of and joint and several obligor with the Province and as such guarantees and jointly and severally obligates itself for the punctual payment of the interest and principal of the bonds and of the above-mentioned premium of  $7\frac{1}{2}$  per cent thereon in the manner agreed, and to that end it pledges its full faith and credit. In order that this guarantee and obligation shall appear on each bond, the Republic will cause the form of guarantee and obligation referred to in Clause 3 to be indorsed and signed on each bond. The Republic further obligates itself to devote from its general revenues annually the sum of Lp. 24,000 in monthly payments of Lp. 2,000 each, and to include this as an item in its general budget during the life of the issue, and until its complete cancellation, without prejudice to its general liability and obligation with respect to the total of the issue as guarantor and joint and several obligor. Such sum of Lp. 2,000 per month shall be deposited by the Republic monthly beginning June 1, 1927, and from and after that date the Republic shall on the first of each month deliver that amount to the depository in Peru for account of the fiscal agent, in order that the same may be used for the service of interest and amortization."

(Source: Official English copy of the above described contract.)

3. Peruvian national loan, 6 per cent, external sinking fund, gold bonds, first series, 1927-1960, \$50,000,000.

Contract: Executed December 19, 1927, between the Peruvian Government, J. & W. Seligman & Co., and the National City Bank of New York.

Law authorizing loan: No. 5930 of December 18, 1927.

Amount issued: \$50,000,000 in bonds of \$1,000 and \$500 denominations.

Price paid Government: 86 per cent.

Amortization: A semiannual cumulative sinking fund of 1 per cent for the redemption of bonds by drawings, as per table.

Commission: The fiscal agents receive one-fourth per cent commission on the total amount of the service.

Date of interest payments: June 1 and December 1 of each year.

Date of maturity: December 1, 1960; callable on any interest date at 100 per cent, plus interest accrued to date of redemption.

Service on the loan: The collection department of the office of deposits and consignments pays the fiscal agents, J. & W. Seligman & Co. and The National City Bank of New York, semiannually, the sum of \$1,750,000 to cover the service on this loan.

Paying agents: The National City Bank of New York and J. & W. Seligman & Co., in New York; Seligman Bros. (Ltd.), and The National City Bank of New York, in London; Pierson & Co., Netherlands Trading Co., and Mendelsohn & Co., in Amsterdam; and Crédit Suisse, in Zurich and Basle.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, pages 259-260.)

*Amortization and interest table*

Date	Interest	Amortization	Balance due
			\$50,000,000
June, 1928.....	\$1,500,000	\$250,000	49,750,000
December, 1928.....	1,402,500	257,500	49,492,500
	\$2,992,500	\$507,500	
June, 1929.....	1,484,776	265,000	49,227,500
December, 1929.....	1,476,825	273,000	48,954,500
	2,961,600	538,000	
June, 1930.....	1,468,635	281,500	48,673,000
December, 1930.....	1,460,190	290,000	48,383,000
	2,928,825	571,500	
June, 1931.....	1,451,490	298,500	48,084,500
December, 1931.....	1,442,535	307,500	47,777,000
	2,894,025	606,000	
June, 1932.....	1,433,310	316,500	47,460,500
December, 1932.....	1,423,815	326,000	47,134,500
	2,857,125	642,500	
June, 1933.....	1,414,035	336,000	46,798,500
December, 1933.....	1,403,955	346,000	46,452,500
	2,817,990	682,000	

Amortization and interest table—Continued

Date	Interest	Amortization	Balance due
June, 1934.....	\$1,393,575	\$356,500	\$46,096,000
December, 1934.....	1,382,880	367,000	45,729,000
June, 1935.....	1,371,870	378,500	45,350,500
December, 1935.....	1,360,515	389,500	44,961,000
June, 1936.....	1,348,830	401,000	44,560,000
December, 1936.....	1,336,800	413,000	44,147,000
June, 1937.....	1,324,410	426,000	43,721,000
December, 1937.....	1,311,630	438,000	43,283,000
June, 1938.....	1,298,490	451,500	42,831,500
December, 1938.....	1,284,945	465,000	42,366,500
June, 1939.....	1,270,995	479,000	41,887,500
December, 1939.....	1,256,625	493,500	41,394,000
June, 1940.....	1,241,820	508,500	40,885,500
December, 1940.....	1,226,565	523,000	40,462,500
June, 1941.....	1,210,875	539,500	39,823,000
December, 1941.....	1,194,690	555,000	39,268,000
June, 1942.....	1,178,040	572,000	38,696,000
December, 1942.....	1,160,880	589,500	38,106,500
June, 1943.....	1,143,195	606,500	37,500,000
December, 1943.....	1,125,000	625,000	36,875,000
June, 1944.....	1,106,250	644,000	36,231,000
December, 1944.....	1,086,930	663,000	35,668,000
June, 1945.....	1,067,040	683,000	34,885,000
December, 1945.....	1,046,550	703,500	34,181,500
June, 1946.....	1,025,445	724,500	33,457,000
December, 1946.....	1,003,710	746,000	32,711,000
June, 1947.....	981,330	769,000	31,942,000
December, 1947.....	958,260	791,500	31,150,500
June, 1948.....	934,515	815,500	30,335,000
December, 1948.....	910,050	840,000	29,495,000
June, 1949.....	884,850	865,000	28,630,000
December, 1949.....	858,900	891,000	27,739,000
June, 1950.....	832,170	918,000	26,821,000
December, 1950.....	804,830	945,500	25,875,500
June, 1951.....	776,265	973,500	24,902,000
December, 1951.....	747,060	1,076,500	23,800,000
June, 1952.....	716,970	1,033,000	22,866,000
December, 1952.....	685,980	1,064,000	21,800,000
June, 1953.....	654,060	1,096,000	20,706,000
December, 1953.....	621,180	1,129,000	19,577,000
June, 1954.....	587,310	1,162,500	18,414,500
December, 1954.....	552,435	1,197,500	17,217,000
June, 1955.....	516,610	1,233,500	15,983,500
December, 1955.....	479,505	1,270,500	14,713,000
June, 1956.....	441,390	1,309,000	13,404,000
December, 1956.....	402,120	1,347,500	12,056,500
June, 1957.....	361,695	1,388,500	10,668,000
December, 1957.....	320,040	1,430,000	9,238,000
June, 1958.....	277,140	1,473,000	7,765,000
December, 1958.....	232,950	1,517,000	6,248,000
June, 1959.....	187,440	1,562,500	4,685,500
December, 1959.....	140,665	1,609,500	3,078,000
June, 1960.....	92,280	1,657,500	1,418,500
December, 1960.....	42,655	1,418,500	3,076,000

(Surplus: \$289,225.)

4. Peruvian national loan, 6 per cent external sinking fund gold bonds, second series, 1928-1961, \$25,000,000.

Contract: Executed October 1, 1928, with J. & W. Seligman & Co., The National City Co. and The National City Bank of New York.

Law authorizing loan: No. 5930 of December 18, 1927.

Amount issued: \$25,000,000 in bonds of \$1,000 and \$500 denominations.

Price paid Government: 86 per cent.

Amortization: A semiannual cumulative sinking fund of 1 per cent for the redemption of bonds by drawing.

Commission:  $\frac{1}{4}$  per cent on the amount of the service.

Dates of interest payments: April 1 and October 1 of each year.

Date of maturity: October 1, 1961; callable as a whole or in part on any interest date at 100 per cent, plus accrued interest to date of redemption.

Service on the loan: The collection department of the office of deposits and consignments pays the fiscal agents, semiannually, the sum of \$875,000 to cover the service on this loan.

Paying agents: The National City Bank of New York and J. & W. Seligman & Co., in New York; Seligman Bros. (Ltd.) and The National City Bank of New York, in London; Pierson & Co., Netherlands Trading Society, Mendelsohn & Co. and Twentsche Bank, in Amsterdam, and Credit Suisse, in Zurich and Basle.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, page 260.)

*Amortization and interest table*

Date	Interest	Amortization	Balance due
			\$25,000,000
April, 1929.....	\$750,000	\$125,000	24,875,000
October, 1929.....	746,250	128,500	24,746,500
	\$1,496,250	\$253,500	
April, 1930.....	742,395	132,500	24,614,000
October, 1930.....	738,420	136,500	24,477,500
	1,480,815	269,000	
April, 1931.....	734,325	140,500	24,337,000
October, 1931.....	730,110	145,500	24,191,500
	1,464,435	286,000	
April, 1932.....	725,745	149,000	24,042,500
October, 1932.....	721,275	153,500	23,889,000
	1,447,020	302,500	
April, 1933.....	716,670	158,000	23,731,000
October, 1933.....	711,930	163,500	23,567,500
	1,428,600	321,500	
April, 1934.....	707,025	168,000	23,399,500
October, 1934.....	701,985	173,000	23,226,500
	1,409,010	341,000	
April, 1935.....	696,795	178,500	23,048,000
October, 1935.....	691,440	183,500	22,864,500
	1,388,235	362,000	
April, 1936.....	685,935	189,000	22,675,500
October, 1936.....	680,265	194,500	22,481,000
	1,366,200	383,500	
April, 1937.....	674,430	200,500	22,280,500
October, 1937.....	668,415	207,000	22,073,500
	1,342,845	407,500	
April, 1938.....	662,205	212,500	21,861,000
October, 1938.....	655,830	219,500	21,641,500
	1,318,035	432,000	
April, 1939.....	649,245	225,500	21,416,000
October, 1939.....	642,480	232,500	21,183,500
	1,291,725	458,000	
April, 1940.....	635,505	239,500	20,944,000
October, 1940.....	628,320	247,000	20,697,000
	1,263,825	486,500	
April, 1941.....	620,910	254,000	20,443,000
October, 1941.....	613,290	261,500	20,181,500
	1,234,200	515,500	
April, 1942.....	605,445	269,500	19,912,000
October, 1942.....	597,360	278,000	19,634,000
	1,202,805	547,500	
April, 1943.....	589,020	285,500	19,348,500
October, 1943.....	580,455	294,500	19,054,000
	1,169,475	580,000	
April, 1944.....	571,620	303,500	18,750,500
October, 1944.....	562,515	312,500	18,438,000
	1,134,135	616,000	

## Amortization and interest table—Continued

Date	Interest	Amortization	Balance due
April, 1945.....	\$553, 140	\$322, 000	\$18, 116, 000
October, 1945.....	543, 480	331, 500	17, 784, 500
	\$1, 096, 620	\$653, 500	
April, 1946.....	533, 535	341, 500	17, 443, 000
October, 1946.....	523, 290	351, 500	17, 091, 500
	1, 056, 825	693, 000	
April, 1947.....	512, 745	362, 500	16, 729, 000
October, 1947.....	501, 870	373, 000	16, 356, 000
	1, 014, 615	735, 500	
April, 1948.....	490, 680	384, 500	15, 971, 500
October, 1948.....	479, 145	396, 000	15, 575, 500
	969, 825	780, 500	
April, 1949.....	467, 265	407, 500	15, 168, 000
October, 1949.....	455, 040	420, 000	14, 748, 000
	922, 305	827, 500	
April, 1950.....	442, 440	432, 500	14, 315, 500
October, 1950.....	429, 465	445, 500	13, 870, 000
	871, 905	878, 000	
Apr. 1951.....	416, 100	459, 000	13, 411, 000
Oct. 1951.....	402, 330	472, 500	12, 938, 500
	818, 430	931, 500	
Apr. 1952.....	388, 155	487, 000	12, 451, 500
Oct. 1952.....	373, 545	501, 500	11, 950, 000
	761, 700	988, 500	
Apr. 1953.....	358, 500	516, 500	11, 433, 500
Oct. 1953.....	343, 005	532, 000	10, 901, 500
	701, 505	1, 048, 500	
Apr. 1954.....	327, 045	548, 000	10, 353, 500
Oct. 1954.....	310, 605	564, 500	9, 789, 000
	637, 650	1, 112, 500	
Apr. 1955.....	298, 670	581, 000	9, 208, 000
Oct. 1955.....	276, 240	599, 000	8, 609, 000
	569, 910	1, 180, 000	
Apr. 1956.....	258, 270	616, 500	7, 992, 500
Oct. 1956.....	239, 775	635, 000	7, 357, 500
	498, 045	1, 251, 500	
Apr. 1957.....	220, 725	653, 500	6, 704, 000
Oct. 1957.....	201, 120	674, 000	6, 030, 000
	421, 845	1, 327, 500	
Apr. 1958.....	190, 900	694, 000	5, 336, 000
Oct. 1958.....	160, 080	715, 000	4, 621, 000
	340, 980	1, 409, 000	
Apr. 1959.....	138, 630	736, 500	3, 884, 500
Oct. 1959.....	116, 535	758, 500	3, 126, 000
	255, 165	1, 495, 000	
Apr. 1960.....	93, 780	781, 000	2, 345, 000
Oct. 1960.....	70, 350	804, 500	1, 540, 500
	164, 130	1, 585, 500	
Apr. 1961.....	46, 215	829, 000	711, 500
Oct. 1961.....	21, 345	711, 500	
	67, 560	1, 540, 500	

(Surplus: \$142,375.)

## 5. Promissory notes, Electric Boat Co.

Contract: Executed October 11, 1926, with the Electric Boat Co. and the office of deposits and consignments.

Laws authorizing issue: No. 4480 of January 24, 1922, and No. 4936 of January 30, 1924.

Amount issued: \$3,681,640.78 in promissory notes of \$10,400 each.

Amortization: By monthly installments of \$52,000 on the eleventh of each month.

Date of maturity: September 11, 1932.

Security: Revenues for national defense created by laws Nos. 4480 and 4936.

Service on the loan: Through the office of deposits and consignments.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, page 261.)

*Amortization and interest table—\$54 promissory notes for \$10,400 each; fixed monthly amortization \$52,000*

Dates	Amortization	Balance pending
Nov.-Dec. 11, 1926 (2 months)	\$104,000.00	\$3,681,640.78
Jan.-Dec. 11, 1927 (12 months)	624,000.00	3,577,640.78
Jan.-Dec. 11, 1927 (12 months)	624,000.00	2,953,640.78
Jan.-Dec. 11, 1929 (12 months)	624,000.00	2,329,640.78
Jan.-Dec. 11, 1930 (12 months)	624,000.00	1,705,640.78
Jan.-Dec. 11, 1931 (12 months)	624,000.00	1,081,640.78
Jan.-Dec. 11, 1931 (12 months)	624,000.00	457,640.78
Jan.-Sept. 11, 1932 (9 months)	457,640.78	-----

NOTE.—The above-described issue of notes, while not a bond issue like the other securities described in this section, is considered by the Government as a part of their funded debt, and has, therefore, been included in this appendix.

#### POUND STERLING LOANS

1. Honorable provincial council of Lima, municipal loan, 5 per cent, 1911-1965, £600,000 city of Lima provincial council 5 per cent first mortgage bonds.

Contract: Of December 2, 1911, between the city of Lima provincial council, the Bank of Peru and London, and W. R. Grace & Co.

Laws authorizing loan: Law of October 14, 1892, and No. 4013 of December 15, 1919. This latter nationalized the loan.

Amount issued: £600,000 in bearer mortgage bonds of £100 denominations.

Price paid government (municipality): 87 per cent.

Amortization: By semiannual purchases below par or drawings at par.

Commission: Three-eighths of 1 per cent on the service and coupons paid in Lima, New York, and London; and one-half of 1 per cent on coupons paid in Paris.

Dates of interest payments: January 1 and July 1 of each year.

Date of maturity: July 1, 1965; callable on any interest date at par.

Security: Municipal properties and revenues.

Service on the loan: Through the Anglo South American Bank (Ltd.), of London, which receives, semiannually, the sum of £16,632.10.0 from the Bank of Peru and London.

Paying Agents: The Anglo South American Bank (Ltd.), in London and Paris; Grace National Bank, in New York; and Bank of Peru and London, in Lima.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, p. 261.)

2. Peruvian Government, 7½ per cent guano loan, 1922-1948, £1,250,000.

Contract: Executed on December 12, 1922, with Baring Bros. & Co. (Ltd.), and J. Henry Schroder & Co., of London.

Laws authorizing loan: No. 4545 of November 18, 1922, and No. 4574 of December 11, 1922.

Amount issued: £1,250,000 in bearer bonds of £100, £500, and £1,000 denominations.

Price paid Government: 89 per cent.

Amortization: 1½ per cent cumulative sinking fund to be applied yearly to the purchase of bonds on the open market or drawings during the month of April.

Commission: One-half of 1 per cent on the service of amortization and 1 per cent on service of interest.

Dates of interest payments: June 1 and December 1 of each year.

Date of maturity: June 1, 1948; callable after June 1, 1933, at 105 per cent, plus accrued interest to date of redemption.

Security: The guano tax and 50 per cent of the stock of the guano administration company.

Service on the loan: The guano administration company remits weekly to J. Henry Schroder & Co., London, the sum of £2,200 to cover the service on this loan.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, pages 261-2.)

3. Peruvian national loan, 6 per cent external sinking fund gold bonds, second series, 1928-1961, £2,000,000.

Amount issued: £2,000,000 in bonds of £1,000, £500, £100, and £20 denominations.

Service on the loan: The collection department of the office of deposits and consignments pays semiannually to the fiscal agents, the sum of £70,000, or \$340,655 for the service on this loan.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, page 262.)

Note.—For other data, see Peruvian nation loan; 6 per cent external sinking fund, second series, 1928–1961, \$15,000,000; No. 4 of this appendix.

*Amortization and interest table*

Date	Interest	Amortization	Balance due
			£2,000,000. 0
April, 1929.....	£60,000. 0	£10,000. 0	1,990,000. 0
October, 1929.....	59,700. 0	10,300. 0	1,979,700. 0
	£119,700. 0	£20,300. 0	
April, 1930.....	59,391. 0	10,600. 0	1,969,100. 0
October, 1930.....	59,073. 0	10,920. 0	1,958,180. 0
	118,464. 0	21,520. 0	
April, 1931.....	58,745. 4	11,240. 0	1,948,940. 0
October, 1931.....	58,408. 2	11,560. 0	1,938,360. 0
	117,153. 6	22,820. 0	
April, 1932.....	58,060. 8	11,920. 0	1,928,440. 0
October, 1932.....	57,703. 2	12,280. 0	1,918,160. 0
	115,764. 0	24,200. 0	
April, 1933.....	57,334. 8	12,660. 0	1,898,500. 0
October, 1933.....	56,955. 0	13,000. 0	1,885,500. 0
	114,289. 8	25,660. 0	
April, 1934.....	56,565. 0	13,420. 0	1,872,080. 0
October, 1934.....	56,162. 4	13,820. 0	1,858,260. 0
	112,737. 4	27,240. 0	
April, 1935.....	55,747. 8	14,240. 0	1,844,020. 0
October, 1935.....	55,320. 6	14,660. 0	1,829,360. 0
	111,068. 4	28,900. 0	
April, 1936.....	54,880. 8	15,100. 0	1,814,260. 0
October, 1936.....	54,427. 8	15,560. 0	1,798,700. 0
	109,308. 6	30,660. 0	
April, 1937.....	53,961. 0	16,000. 0	1,782,700. 0
October, 1937.....	53,481. 0	16,500. 0	1,766,200. 0
	107,442. 0	32,500. 0	
April, 1938.....	52,986. 0	17,000. 0	1,749,200. 0
October, 1938.....	52,476. 0	17,520. 0	1,731,680. 0
	105,462. 0	34,520. 0	
April, 1939.....	51,950. 4	18,040. 0	1,713,640. 0
October, 1939.....	51,409. 2	18,580. 0	1,695,060. 0
	103,359. 6	36,620. 0	
April, 1940.....	50,851. 8	19,140. 0	1,675,920. 0
October, 1940.....	50,277. 6	19,720. 0	1,656,200. 0
	101,129. 4	38,860. 0	
April, 1941.....	49,686. 0	20,300. 0	1,635,900. 0
October, 1941.....	49,077. 0	20,920. 0	1,614,980. 0
	98,763. 0	41,220. 0	
April, 1942.....	48,449. 4	21,640. 0	1,593,440. 0
October, 1942.....	47,803. 2	22,180. 0	1,571,260. 0
	96,252. 6	43,720. 0	
April, 1943.....	47,137. 8	22,860. 0	1,548,400. 0
October, 1943.....	46,452. 0	23,540. 0	1,524,860. 0
	93,589. 8	46,400. 0	
April, 1944.....	45,745. 8	24,240. 0	1,500,620. 0
October, 1944.....	45,018. 6	24,960. 0	1,475,660. 0
	90,764. 4	49,220. 0	
April, 1945.....	44,269. 2	25,720. 0	1,449,920. 0
October, 1945.....	43,497. 6	26,500. 0	1,423,420. 0
	87,766. 8	52,220. 0	
April, 1946.....	42,702. 6	27,280. 0	1,396,140. 0
October, 1946.....	41,884. 2	28,100. 0	1,368,040. 0
	84,586. 8	55,380. 0	
April, 1947.....	41,041. 2	28,940. 0	1,339,100. 0
October, 1947.....	40,173. 0	29,920. 0	1,309,180. 0
	81,214. 2	58,860. 0	
April, 1948.....	39,275. 4	30,720. 0	1,278,460. 0
October, 1948.....	38,353. 8	30,940. 0	1,247,520. 0
	77,629. 2	61,660. 0	
April, 1949.....	37,425. 6	32,560. 0	1,214,960. 0
October, 1949.....	36,448. 8	33,540. 0	1,181,420. 0
	73,874. 4	66,100. 0	
April, 1950.....	35,442. 6	34,540. 0	1,146,880. 0
October, 1950.....	34,406. 4	35,580. 0	1,111,300. 0
	69,849. 0	70,120. 0	

## Amortization and interest table—Continued

Date	Interest	Amortization	Balance due
April, 1951	£33,339.0	£36,660	£1,074,640.0
October, 1951	32,230.2	37,760	1,036,880.0
	£65,578.2	£74,420.0	
April, 1952	31,106.4	33,880	998,000.0
October, 1952	29,910.0	40,060	957,940.0
	61,046.4	78,940.0	
April, 1953	28,738.2	41,260	916,680.0
October, 1953	27,500.4	42,480	874,200.0
	56,238.6	83,740.0	
April, 1954	26,226.0	43,760	830,440.0
October, 1954	24,913.2	45,060	785,380.0
	51,139.2	88,840.0	
April, 1955	23,560.8	46,420	738,940.0
October, 1955	22,168.2	47,820	691,120.0
	45,729.0	94,240.0	
April, 1956	20,733.6	49,260	641,860.0
October, 1956	19,255.8	50,740	591,120.0
	39,989.4	100,000.0	
April, 1957	17,733.6	52,260	538,860.0
October, 1957	16,165.8	53,820	485,040.0
	33,899.4	106,080.0	
April, 1958	14,551.2	55,440	429,600.0
October, 1958	12,888.0	57,100	372,500.0
	27,439.2	112,540.0	
April, 1959	11,175.0	58,820	313,680.0
October, 1959	9,410.4	60,580	253,100.0
	20,585.4	119,400.0	
April, 1960	7,593.0	62,400	190,700.0
October, 1960	5,721.0	64,260	126,440.0
	13,314.0	126,660.0	
April, 1961	3,793.2	68,200	60,240.0
October, 1961	1,807.2	60,240	
	5,600.4	128,440.0	

(Surplus: £9,281.8.)

## B. INTERNAL LOANS IN POUNDS STERLING

1. Republic of Peru, 8 per cent special banking internal loan, 1924-1944, £500,000:

Contract: Executed December 6, 1924, with the following banks: Banco del Perú y Londres, Banco Italiano, Banco Alemán Transatlántico, National City Bank of New York, Anglo South American Bank (Ltd.), Banco Popular del Perú, Banco Internacional del Perú, and the Office of Deposits and Consignments. This contract was approved by supreme decree of December 17, 1924.

Law authorizing loan: No. 4979 of December 5, 1924.

Amount issued: £500,000.0 in bonds of £100 denominations.

Price paid Government: Ninety-six per cent.

Amortization: Semiannual drawings on June 15 and December 15.

Commission: The trustees, the Bank of Peru and London and the Italian Bank receive one-half of 1 per cent commission.

Dates of interest payments: March 15, June 15, September 15, and December 15.

Date of maturity: September 15, 1944; callable on any interest date.

Security: Revenue stamps and stamped-paper taxes.

Service on the loan: Taken care of by the trustee banks with the yearly amount of £50,928.2.0.

(Source: *Balance y Cuenta General de la República, 1929, ministry of finance p. 263.*)

*Amortization and interest table*

Date	Interest	Amortization	Balance due
			£418,000
June 15, 1931.....	£16,720	£8,700	409,300
Dec. 15, 1931.....	16,372	9,100	400,200
	£33,092	£17,800	
June 15, 1932.....	16,008	9,400	390,800
Dec. 15, 1932.....	15,632	9,900	380,900
	31,640	19,300	
June 15, 1933.....	15,236	10,200	370,700
Dec. 15, 1933.....	14,828	10,600	360,100
	30,064	20,800	
June 15, 1934.....	14,404	11,100	349,000
Dec. 15, 1934.....	13,960	11,500	337,500
	28,364	22,600	
June 15, 1935.....	13,500	12,000	325,500
Dec. 15, 1935.....	13,020	12,400	313,100
	26,520	24,400	
June 15, 1936.....	12,524	12,900	300,200
Dec. 15, 1936.....	12,008	13,500	286,700
	24,532	26,400	
June 15, 1937.....	11,468	14,000	272,700
Dec. 15, 1937.....	10,908	14,500	258,200
	22,376	28,500	
June 15, 1938.....	10,328	15,200	243,000
Dec. 15, 1938.....	9,720	15,700	227,300
	20,048	30,900	
June 15, 1939.....	9,092	16,400	210,900
Dec. 15, 1939.....	8,436	17,000	193,900
	17,528	33,400	
June 15, 1940.....	7,756	17,700	176,200
Dec. 15, 1940.....	7,048	18,400	157,800
	14,804	36,100	
June 15, 1941.....	6,312	19,200	138,600
Dec. 15, 1941.....	5,544	19,900	118,700
	11,856	39,100	
June 15, 1942.....	4,748	20,700	98,000
Dec. 15, 1942.....	3,920	21,600	76,400
	8,668	42,300	
June 15, 1943.....	3,056	22,400	54,000
Dec. 15, 1943.....	2,160	23,300	30,700
	5,216	45,700	
June 15, 1944.....	1,228	24,200	6,500
Dec. 15, 1944.....	260	6,500	-----
	1,488	30,700	

2. Mortgage bonds of the Huando-Esperanza Corporation, 1926-1946, £120,000. Amount issued: £120,000 at the Banco Italiano by Señor Antonio Graña, in mortgage bonds of £100 denominations.

Amortization: £3,000 semiannually in June and December of each year.

Dates of interest payments: March 31, June 30, September 30, and December 31 of each year.

Date of maturity: Loan to become extinguished in 20 years. The first amortization was made in December, 1926.

Security: The cotton plantations Huando and La Esperanza in the Chancay Valley, owned by Señor Antonio Graña.

Information furnished by the Ministry of Finance and Commerce to the Commission of Financial Advisers (Kemmerer, 1931).

NOTE.—The amounts noted in the following paragraphs are (or were) payable in Peruvian pounds, except the bond issues, principal and interest, which is payable in pounds sterling at the option of the bondholders. This fact was ascertained by a member of the commission of financial advisers by inspection of bonds now in the vaults of the Banco Italiano. As the bondholders will naturally seek payments in pounds sterling, the bond issue is shown in this currency.

1. Under contract dated December 17, 1926, the Government and Señor Antonio Graña formed a corporation by the name of "Irrigación de la Esperanza."

2. The purpose was to rent and sell, in small parcels, the irrigated land of the estate "La Esperanza," and, in particular, to irrigate the uncultivated land.

3. The capital of Lp. 61,174 was contributed in equal portions by the Government and Señor Antonio Graña. Any additional capital required to carry out the irrigation scheme was to be furnished by the Government.

4. At the time of the formation of this company, Señor Antonio Graña sold to the latter the estate "La Esperanza" together with all materials, tools, fixtures, etc., and the irrigation works already completed, for the amount of Lp. 230,587. But as there were the following liens encumbering the "La Esperanza" estate:

Bond issue of the Italian Bank.....	£/Lp.120,000.0.00
Promissory notes in favor of the Italian Bank.....	64,109.6.11
Promissory notes in favor of the International Bank of Peru.....	15,890.3.89
	<hr/>
	200,000.0.00

the Government assumed liability for the payment of the above, for account of the company, and issued the supreme decree of February 5, 1927, to that effect.

5. The difference of Lp. 30,587.0.00 represents the capital contributed by Signor Antonio Graña.

6. That portion of the debt assumed by the Government and consisting of the notes amounting to Lp. 64,109.6.11 and Lp. 15,890.3.89, in favor of the Italian Bank and International Bank of Peru, respectively, was paid off by the government as follows:

Italian Bank in 1927.....	Lp.30,109.6.11
Italian Bank in 1928.....	27,000.0.00
Italian Bank in 1929.....	7,000.0.00
	<hr/>
	64,109.6.11
International Bank of Peru in 1927.....	6,278.5.43
International Bank of Peru in 1928.....	6,236.1.52
International Bank of Peru in 1929.....	3,380.6.94
	<hr/>
	15,890.3.89

(Source: Typewritten manuscript from the Ministry of Finance, specially prepared for the commission of financial advisers.)

*Amortization and interest table*

Date	Interest	Amortization	Balance due
Dec. 31, 1925.....	£2,400	none.	£120,000
Mar. 31, 1926.....	2,400	none. none.	120,000
June 30, 1926.....	2,400		
Sept. 30, 1926.....	2,400	none. none.	120,000
Dec. 31, 1926.....	2,400		
Mar. 31, 1927.....	2,400		120,000
June 30, 1927.....	2,400	none none.	120,000
Sept. 30, 1927.....	2,400		
Dec. 31, 1927.....	2,400	£3,000	117,000
Mar. 31, 1928.....	2,340	9,600	£3,000
June 30, 1928.....	2,340	3,000	114,000
Sept. 30, 1928.....	2,280		
Dec. 31, 1928.....	2,280	3,000	111,000
Mar. 31, 1929.....	2,220	9,240	6,000
June 30, 1929.....	2,220	3,000	108,000
Sept. 30, 1929.....	2,160		
Dec. 31, 1929.....	2,160	3,000	105,000
Mar. 31, 1930.....	2,100	8,760	6,000
June 30, 1930.....	2,100	3,000	102,000
Sept. 30, 1930.....	2,040		
Dec. 31, 1930.....	2,040	3,000	99,000
Mar. 31, 1931.....	1,980	8,280	6,000
June 30, 1931.....	1,980	3,000	96,000
Sept. 30, 1931.....	1,920		
Dec. 31, 1931.....	1,920	3,000	93,000
Mar. 31, 1932.....	1,860	7,800	6,000
June 30, 1932.....	1,860	3,000	90,000
Sept. 30, 1932.....	1,800		
Dec. 31, 1932.....	1,800	3,000	87,000
	7,320		6,000

Amortization and interest table—Continued

Date	Interest	Amortization	Balance due
Mar. 31, 1933.....	£1,740		
June 30, 1933.....	1,740	£3,000	£84,000
Sept. 30, 1933.....	1,680		
Dec. 31, 1933.....	1,680	3,000	
	£6,840	£6,000	81,000
Mar. 31, 1934.....	1,620		
June 30, 1934.....	1,620	3,000	78,000
Sept. 30, 1934.....	1,560		
Dec. 31, 1934.....	1,560	3,000	
	6,360	6,000	75,000
Mar. 31, 1935.....	1,500		
June 30, 1935.....	1,500	3,000	72,000
Sept. 30, 1935.....	1,440		
Dec. 31, 1935.....	1,440	3,000	
	5,880	6,000	69,000
Mar. 31, 1936.....	1,380		
June 30, 1936.....	1,380	3,000	66,000
Sept. 30, 1936.....	1,320		
Dec. 31, 1936.....	1,320	3,000	
	5,400	6,000	63,000
Mar. 31, 1937.....	1,260		
June 30, 1937.....	1,260	3,000	60,000
Sept. 30, 1937.....	1,200		
Dec. 31, 1937.....	1,200	3,000	
	4,920	6,000	57,000
Mar. 31, 1938.....	1,140		
June 30, 1938.....	1,140	3,000	54,000
Sept. 30, 1938.....	1,080		
Dec. 31, 1938.....	1,080	3,000	
	4,440	6,000	51,000
Mar. 31, 1939.....	1,020		
June 30, 1939.....	1,020	3,000	48,000
Sept. 30, 1939.....	960		
Dec. 31, 1939.....	960	3,000	
	3,960	6,000	45,000
Mar. 31, 1940.....	900		
June 30, 1940.....	900	3,000	42,000
Sept. 30, 1940.....	840		
Dec. 31, 1940.....	840	3,000	
	3,480	6,000	39,000
Mar. 31, 1941.....	780		
June 30, 1941.....	780	3,000	36,000
Sept. 30, 1941.....	720		
Dec. 31, 1941.....	720	3,000	
	3,000	6,000	33,000
Mar. 31, 1942.....	660		
June 30, 1942.....	660	3,000	30,000
Sept. 30, 1942.....	600		
Dec. 31, 1942.....	600	3,000	
	2,520	6,000	27,000
Mar. 31, 1943.....	540		
June 30, 1943.....	540	3,000	24,000
Sept. 30, 1943.....	480		
Dec. 31, 1943.....	480	3,000	
	2,040	6,000	21,000
Mar. 31, 1944.....	420		
June 30, 1944.....	420	3,000	18,000
Sept. 30, 1944.....	360		
Dec. 31, 1944.....	360	3,000	
	1,560	6,000	15,000
Mar. 31, 1945.....	300		
June 30, 1945.....	300	3,000	12,000
Sept. 30, 1945.....	240		
Dec. 31, 1945.....	240	3,000	
	1,080	6,000	9,000
Mar. 31, 1946.....	180		
June 30, 1946.....	180	3,000	6,000
Sept. 30, 1946.....	120		
Dec. 31, 1946.....	120	3,000	
	600	6,000	3,000
Mar. 31, 1947.....	60		
June 30, 1947.....	60	3,000	
	120	3,000	

IN PERUVIAN POUNDS OR SOLES

3. Republic of Peru consolidated 1 per cent loan of 1889, S/26,606,450.  
 Laws authorizing loan: June 12, 1889, and October 31, 1889.  
 Amount issued: Law of June 12, 1889, fixed the amount of this loan at  
 Lp. 2,660,645, which, in accordance with law No. 2713 of February 6, 1913,

are convertible at holder's option into cédulas of the consolidated 7 per cent internal debt of 1918 at 14 per cent of their nominal value.

Amortization: There is no amortization service. Bonds of this issue are redeemed by exchange for cédulas of the consolidated 7 per cent internal debt of 1918, as authorized by law No. 2713.

Dates of interest payments: March 31, June 30, September 30, and December 31.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, pp. 263-4.)

4. Republic of Peru redeemable debt of 1898, S/46,981,250.00.

Law authorizing loan: December 17, 1898.

Amount issued: Lp. 4,698,125.000.

Amortization: Quarterly offers tendered by holders, with a yearly amount of Lp. 25,000.000 set aside for that purpose.

Service on the loan: Through the office of deposits and consignment.

Commission: One-half per cent on the service. No interest.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, p. 264.)

5. Republic of Peru 7 per cent cédulas of the consolidated internal debt of 1918, S/34,559,700.

Laws authorizing loan: No. 2713 of February 6, 1918; No. 2736 of April 20, 1918; No. 4075 of May 1, 1920; No. 4117 of May 11, 1920; No. 4230 of May 14, 1921; and No. 4922 of February 6, 1924.<sup>1</sup>

Amount issued: Lp. 3,455,970.

Amortization: Semiannual drawings at par on May 1 and November 1, of each year.

Commission: Office of deposits and consignments receives one-half per cent on the service of these cédulas.

Dates of interest payments: March 31, June 30, September 30, and December 31, by the office of deposits and consignments.

Security: Net proceeds of alcohol tax.

Service on the loan: Effected through the office of deposits and consignments.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, p. 264.)

6. Huacho 8 per cent, sanitation loan of 1923, S/300,000.00.

Contract: Executed June 26, 1923, with Carlos Ortiz de Zevallos and the office of deposits and consignments.

Law authorizing loan: No. 4645 of April 4, 1923.

Amount issued: Lp. 30,000 in bearer bonds of Lp. 100 denominations.

Price paid Government: Eighty-six per cent.

Amortization: Semiannual, at par, after paying interest.

Commission: One-half per cent.

Dates of interest payments: March 31, June 30, September 30, and December 31.

Date of maturity: Redeemable on any date, subject to 15 days' notice and payment of interest up to date of redemption.

Security: Proceeds of land and industrial taxes of Chancay and additional tax on exportation of cotton and sugar through the port of Huacho. Laws No. 2879 of November 27, 1918, and No. 4110 of May 11, 1920.

Service on the loan: Taken care of by office of deposit and consignments.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, pp. 264-265.)

7. Republic of Peru internal 8 per cent postal loan, 1924-1944, S/ 1,000,000.00.

Laws authorizing loan: No. 4107 of May 11, 1920; and decree of June 25, 1924.

Amount issued: Lp. 100,000.000 in bonds of Lp. 100 denominations.

Price paid Government: Ninety per cent.

Amortization: Lp. 5,000.000 per annum, applied semiannually to retire bonds at par.

Commission: One-half of 1 per cent on the amount of the service for the office of deposits and consignments.

Dates of interest payments: March 31, June 30, September 30, and December 31 of each year.

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<sup>1</sup> The date of the above-mentioned law, No. 4230, shown as May 14, 1921, in the Balance y Cuenta General de la República, is actually Mar. 14, 1921.

Security: Two per cent on parcel post goods and post office stores' rents.  
 Service on the loan: Effected by the office of deposits and consignments.  
 (Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, p. 265.)

*Amortization and interest table*

Date	Interest	Amortization	Balance due
			S/. 675,000
June 30, 1931.....	S/. 27,000	S/. 25,000	650,000
Dec. 31, 1931.....	26,000	25,000	625,000
June 30, 1932.....	25,000	25,000	600,000
Dec. 31, 1932.....	24,000	25,000	575,000
June 30, 1933.....	23,000	25,000	550,000
Dec. 31, 1933.....	22,000	25,000	525,000
June 30, 1934.....	21,000	25,000	500,000
Dec. 31, 1934.....	20,000	25,000	475,000
June 30, 1935.....	19,000	25,000	450,000
Dec. 31, 1935.....	18,000	25,000	425,000
June 30, 1936.....	17,000	25,000	400,000
Dec. 31, 1936.....	16,000	25,000	375,000
June 30, 1937.....	15,000	25,000	350,000
Dec. 31, 1937.....	14,000	25,000	325,000
June 30, 1938.....	13,000	25,000	300,000
Dec. 31, 1938.....	12,000	25,000	275,000
June 30, 1939.....	11,000	25,000	250,000
Dec. 31, 1939.....	10,000	25,000	225,000
June 30, 1940.....	9,000	25,000	200,000
Dec. 31, 1940.....	8,000	25,000	175,000
June 30, 1941.....	7,000	25,000	150,000
Dec. 31, 1941.....	6,000	25,000	125,000
June 30, 1942.....	5,000	25,000	100,000
Dec. 31, 1942.....	4,000	25,000	75,000
June 30, 1943.....	3,000	25,000	50,000
Dec. 31, 1943.....	2,000	25,000	25,000
June 30, 1944.....	1,000	25,000	

8. Collection Department of Office of Deposits and Consignments Loan, 10 per cent, 1927, S/. 3,000,000.

Contract: Of March 31, 1927, approved by supreme resolution.

Law authorizing loan: No. 5746, of March 14, 1927.

Amount issued: Lp. 298,600 of the total authorized amount of Lp. 300,000 in denominations of Lp. 500, Lp. 100, and Lp. 50.

Price paid Government: One hundred per cent.

Amortization: No special fixed amortizations are provided for. Amortizations are effected by drawings at par when the Government has funds available for that purpose, three days after receiving said sums. There has been no amortization to date.

Commission: None.

Dates of interest payments: March 31, June 30, September 30, and December 31.

Date of maturity: No fixed date.

Security: No specific security is provided for amortizations. As regards the service of interest on this loan, the office of deposits and consignments assumes liability for same with the proceeds of revenues collected for the Government, exclusively covering said service with the 8 per cent interest the Government is to pay for the Lp. 300,000 deposit, and the balance with part of the commission the office of deposits and consignments is entitled to for the collection of such revenues.

Service on the loan: Lp. 30,000 yearly for interest, or 10 per cent.

(Sources: (a) Note from manager of office of deposits and consignments, dated February 23, 1931; (b) booklet issued by office of deposits and consign-

ments entitled "Ley Orgánica No. 5746, contrato y antecedentes," Lima, 1927, pp. 1-89.)

9. Republic of Peru internal 6 per cent bonds, 1929-1949, S/. 15,000,000.

Contract: Executed March 13, 1929, with the office of deposits and consignments.

Law authorizing loan: No. 6527, of February 23, 1929.

Amount issued: Lp. 571,400.000 of a total authorized issue of Lp. 1,500,000 in bonds of Lp. 100 and Lp. 500 denominations.

Price paid Government: One hundred per cent.

Amortization: Quarterly, by drawings at par, on March 31, June 30, September 30, and December 31.

Commission: Three per cent sales commission, one-half of 1 per cent on ordinary interest and amortization services, and one-eighth of 1 per cent in case of extraordinary amortizations.

Dates of interest payments: March 31, June 30, September 30, and December 31.

Date of maturity: September 30, 1949; callable on any date, subject to 90 days' notice.

Security: Taxes collected by the office of deposits and consignments after deducting service on all series of the Peruvian national loan.

Service on the loan: Effected through office of deposits and consignments.

(Source: Balance y Cuenta General de la República, 1929, Ministry of Finance, pp. 265-6.)

10. Internal public works loan, 6 per cent, 1930-1953, S/. 18,000,000.00.

Law authorizing loan: No. 6752, of February 14, 1930.

Amount issued: S/. 4,887,500 of total authorized issue of S/. 18,000,000 in bonds to bearer of S/. 5,000, S/. 1,000, S/. 500, and S/. 100 denominations, dated April 1, 1930.

Object of issue: Payment by Government of credits outstanding from construction and material supplied for railroads, highways, irrigation, and sanitation work up to December 31, 1929.

Price paid Government: One hundred per cent (see note below).

Amortization: Quarterly amortizations on March 31, June 30, September 30, and December 31 of each year by purchase of bonds on the open market, below par, or by drawings at par if market price is at par or above.

Commission: The office of deposits and consignments receives one-half of 1 per cent on the total amount of the service.

Dates of interest payments: March 31, June 30, September 30, and December 31 of each year.

Date of maturity: September 30, 1953.

Security: One per cent ad valorem on consular invoice tax charged and collected in the customs and post office.

Service on the loan: Service of interest and amortization of this loan is taken care of by the office of deposits and consignments.

(Source: Note signed by José E. Gutierrez with seal of Ministry of Finance, public debt, accounting department.)

NOTE.—These bonds were not sold, but were issued at par to fund floating debt to creditors on public works. In addition to the previously described bond issues in the hands of the public, there is the following bond issue in a form suitable for public distribution, but all of which from the time of issue has been, and still is, in the hands of the Italian Bank.

11. Children's hospital bonds, 8 per cent, 1929, S/. 600,000.

Contract: Of March, 1929, between the construction committee of the children's hospital and the Italian Bank.

Laws authorizing loan: No. 6426 of January 2, 1929, and supreme resolution of March 1, 1929, for the completion of the hospital and securing equipment.

Amount issued: Lp. 60,000 in Lp. 100 denominations, each bond being signed by the director of public credit.

Price paid Government: Ninety-seven per cent.

Amortization: Two per cent cumulative sinking fund, payable semi-annually by drawings during the first fortnight in April and October of each year. If the market price is less than par at the date of drawing, these bonds may be acquired through the Italian Bank. Extraordinary amortizations (total or partial) may be effected subject to 15 days' notice. (575 at present in circulation.)

Commission: None.

Dates of interest payments: March 31, June 30, September 30, and December 31 of each year.

Security: (1) Special taxes (law 4743); supplementary tax of 1 centavo on each liter of beer and national liquors, and 2 centavos on each liter of these beverages of foreign origin consumed in Lima and surroundings; 10 per cent on municipal licenses for sale of liquor at retail. (2) Mortgage on hospital building. (3) The Government is responsible for procuring additional security if special funds prove insufficient, and may substitute other revenues for those pledged. (4) Maintain on deposit constantly the equivalent of one semiannual service charge. The office of deposits and consignments collects the taxes, turning them over monthly to the Italian Bank.

(Sources: Annual report of Ministry of Finance, 1930, pages 30-1, also pages 70-1; and public deed of contract executed between construction committee and the Italian Bank.)

Amortization and interest table

Date	Interest	Amortization	Balance due
June 30, 1929	S/.11,466	S/.6,000	S/.600,000
Sept. 30, 1929	11,880		594,000
Dec. 31, 1929	11,880	6,000	
Mar. 31, 1930	11,760		S/. 588,000
June 30, 1930	11,760	6,000	582,000
Sept. 30, 1930	11,640		
Dec. 31, 1930	11,640	7,000	
Mar. 31, 1931	11,500		46,800
June 30, 1931	11,500	7,000	13,000
Sept. 30, 1931	11,360		568,000
Dec. 31, 1931	11,360	7,000	
Mar. 31, 1932	11,220		45,720
June 30, 1932	11,220	7,000	14,000
Sept. 30, 1932	11,080		561,000
Dec. 31, 1932	11,080	8,000	
Mar. 31, 1933	10,920		44,600
June 30, 1933	10,920	8,000	15,000
Sept. 30, 1933	10,760		548,000
Dec. 31, 1933	10,760	9,000	
Mar. 31, 1934	10,580		43,360
June 30, 1934	10,580	9,000	17,000
Sept. 30, 1934	10,400		520,000
Dec. 31, 1934	10,400	9,000	
Mar. 31, 1935	10,220		41,960
June 30, 1935	10,220	10,000	18,000
Sept. 30, 1935	10,020		511,000
Dec. 31, 1935	10,020	10,000	
Mar. 31, 1936	9,820		40,480
June 30, 1936	9,820	10,000	20,000
Sept. 30, 1936	9,620		491,000
Dec. 31, 1936	9,620	11,000	
Mar. 31, 1937	9,400		38,880
June 30, 1937	9,400	11,000	21,000
Sept. 30, 1937	9,180		470,000
Dec. 31, 1937	9,180	12,000	
Mar. 31, 1938	8,940		37,160
June 30, 1938	8,940	12,000	23,000
Sept. 30, 1938	8,700		447,000
Dec. 31, 1938	8,700	12,000	
Mar. 31, 1939	8,460		35,280
June 30, 1939	8,460	13,000	24,000
Sept. 30, 1939	8,200		423,000
Dec. 31, 1939	8,200	14,000	
Mar. 31, 1940	7,920		33,320
June 30, 1940	7,920	14,000	27,000
Sept. 30, 1940	7,640		396,000
Dec. 31, 1940	7,640	15,000	
Mar. 31, 1941	7,340		31,120
June 30, 1941	7,340	15,000	29,000
Sept. 30, 1941	7,040		367,000
Dec. 31, 1941	7,040	16,000	
	28,760	31,000	336,000

## Amortization and interest table—Continued

Date	Interest	Amortization	Balance due
Mar. 31, 1942	S/ 6, 720		
June 30, 1942	6, 720	S/ 17, 000	S/ 319, 000
Sept. 30, 1942	6, 380		
Dec. 31, 1942	6, 380	17, 000	
		S/ 34, 000	302, 000
Mar. 31, 1943	6, 040		
June 30, 1943	6, 040	18, 000	294, 000
Sept. 30, 1943	5, 680		
Dec. 31, 1943	5, 680	18, 000	
	23, 440	36, 000	266, 000
Mar. 31, 1944	5, 320		
June 30, 1944	5, 320	20, 000	246, 000
Sept. 30, 1944	4, 920		
Dec. 31, 1944	4, 920	20, 000	
	20, 480	40, 000	226, 000
Mar. 31, 1945	4, 520		
June 30, 1945	4, 520	21, 000	205, 000
Sept. 30, 1945	4, 100		
Dec. 31, 1945	4, 100	22, 000	
	17, 240	43, 000	183, 000
Mar. 31, 1946	3, 660		
June 30, 1946	3, 660	22, 000	161, 000
Sept. 30, 1946	3, 220		
Dec. 31, 1946	3, 220	24, 000	
	13, 760	46, 000	137, 000
Mar. 31, 1947	2, 740		
June 30, 1947	2, 740	24, 000	113, 000
Sept. 30, 1947	2, 260		
Dec. 31, 1947	2, 260	26, 000	
	10, 000	50, 000	87, 000
Mar. 31, 1948	1, 740		
June 30, 1948	1, 740	26, 000	61, 000
Sept. 30, 1948	1, 220		
Dec. 31, 1948	1, 220	28, 000	
	5, 920	54, 000	33, 000
Mar. 31, 1949	660		
June 30, 1949	660	29, 000	4, 000
Sept. 30, 1949	80		
Dec. 31, 1949	80	4, 000	
	1, 480	33, 000	

## APPENDIX 4

## TABLES OF DISTRIBUTION OF THE PROCEEDS OF EXTERNAL BOND ISSUES FLOATED AFTER DECEMBER 31, 1921

(The material in the following appendix is taken from a typewritten copy supplied by the Ministry of Finance, January 30, 1931, signed by A. F. Vargas A., accounting board of review, Ministry of Finance; stamped with the seal of the director general of accounting of the Ministry of Finance and signed by Max Crespo de la Cruz, director of accounting department, Ministry of Finance.)

## BONDS OF THE EXTERNAL DEBT, 8 PER CENT, 1922-1932, \$2,500,000—PERUVIAN STERLING 7½ PER CENT (GUANO) LOAN, 1922-1948, £1,250,000

## Net proceeds of loans

1922 bonds of the external debt 8 per cent, 1922-1932	Lp.573, 963. 5. 69
Peruvian sterling 7½ per cent guano loan, 1922-1948	569, 387. 5. 00
	<hr/>
1923 Peruvian sterling 7½ per cent guano loan, 1922-1948	1, 143, 351. 0. 69
	5, 580, 629. 1. 20
	<hr/>
	1, 723, 980. 1. 89

## Application of proceeds

These two loans were contracted for the purpose of attending to the cancellation of the Government debts and, as per the "Cuenta General de la República" of the year 1922, they were invested as follows:

1922 company for tax collection:

Their balance as of Dec. 31, 1921.....	Lp.34, 675. 9. 72
Drawings for account of returns.....	257, 102. 0. 14
Guano Administration Co. drawing account.....	27, 500. 0. 00
Salt Administration Co., their balance as of Dec. 31, 1921.....	27, 948. 0. 04
London Joint City and Midland Bank, their loan in 1921.....	15, 009. 2. 28
Bank advances in account current.....	97, 745. 7. 29
The Guaranty Trust Co., loan of \$2,500,000, amortization service.....	25, 000. 0. 00
The Guaranty Trust Co., their loan of \$200,000, law 4373.....	40, 000. 0. 00
The Lobitos oil fields, their loan, law 4387.....	47, 391. 9. 61
Gildemeister & Co., their loan of Lp.200,000 (balance).....	67, 801. 6. 64
Special notes (promissory), balance of notes issued as per decree of July 24, 1920.....	7, 099. 3. 40
The Commercial Bank of Washington, account their advances in 1921.....	23, 941. 0. 18
Loan to consulate at Liverpool, payment treasury drafts, 1921.....	21, 635. 8. 33
National Marine Transport Co., on account of their loan.....	2, 800. 0. 00
Peruvian Corporation Co., balance annuity, 1921.....	73, 334. 3. 34
Lima-Huacho Railroad Co., pending services, 1921.....	32, 607. 6. 54
The Guaranty Trust Co., interest service account loan \$2,500,000.....	35, 682. 7. 10
Purchase of shares of the Guano Administration Co., law 4574.....	7, 351. 2. 00
Puno model farm.....	7, 775. 3. 51
Expenses not considered in budget (part expenses not considered in the different budgets of the ministries for the year 1922).....	290, 949. 5. 57
	<u>1, 143, 351. 0. 69</u>

1923. The balance of this loan, in accordance with law 4545 authorizing it, was specially applied to the cancellation of the Government outstanding debts and purchase of shares of the Guano Administration Co., as per following details:

Ministry of Finance and Commerce:

Purchase of shares of Guano Administration Co., law 4545.....	112, 650. 0. 00
Peruvian Corporation Co., interest suspense account.....	6, 988. 4. 87
	<u>119, 638. 4. 87</u>
Ministry of Public works—Puno model farm expenses.....	23, 808. 4. 22
Treasury obligations and other treasuries' drafts paid during the year.....	423, 958. 6. 44
Advances in account current up to Dec. 31, 1922, to cover part of the advances made by the banks of Lima.....	13, 223. 5. 67
	<u>1, 723, 980. 1. 89</u>

SANITATION LOAN, 8 PER CENT, SERIES OF 1924-1944, \$7,000,000

*Net proceeds of loan*

1924. (Laws No. 4126 and No. 4603)..... Lp.1, 487, 847. 4. 87

*Application of proceeds*

In accordance with laws Nos. 4126 and 4603 and Congress resolution No. 4237, this loan was invested as follows:

1924. The Foundation Co., their advances for account of works.....	Lp.221, 000. 0. 00
Italian Bank Lp.400,000, sanitation bond issue; payment of this loan and sundry expenses on sanitation.....	347, 601. 6. 00
Ministry of public works; sanitary works in 1924 to be covered with this loan.....	304, 082. 6. 89
1925. Ministry of public works; sanitary works in 1925.....	615, 163. 1. 98
	<u>1, 487, 847. 4. 87</u>

REPUBLIC OF PERU, 15-YEAR EXTERNAL SINKING FUND SECURED 7½ PER CENT BONDS,  
1925-1940, \$7,500,000, FROM THE GUARANTY TRUST CO.

*Net proceeds of loan*

1925, (law No. 5249)----- Lp.1, 668, 303. 7. 98

*Application of proceeds*

In accordance with law No. 5249 this loan was invested as follows:

1925 Ministry of Finance and Commerce:		
Annual service to Dreyfus-----	Lp.50, 603. 6. 75	
Purchase of Peruvian Steamship Co. shares-----	14, 626. 6. 50	
Payment to Guaranty Trust Co. first service on this loan-----	74, 136. 8. 92	
		Lp.139, 367. 2. 17
Ministry of the Navy: Purchase of hy- droplanes-----		18, 000. 0. 00
Ministry of Public Works:		
Railroad construction-----	49, 500. 0. 00	
Irrigation works-----	86, 144. 0. 00	
		135, 644. 0. 00
Budget balances of 1922-1923 and 1924-----		154, 491. 6. 86
Bonds of the external debt, 8 per cent, 1922-1923 (petro- leum loan), \$2,500,000.		
Balance of this loan \$1,426,755.14 paid at \$4 per Lp.-	356, 688. 7. 85	
1926 Disbursements as per law No. 5249-----	1, 981. 5. 50	
Budget balances of 1922-1924, law No. 5249-----	201, 742. 5. 08	
Railroad construction, law No. 5249-----	500. 0. 00	
Treasuries' draft 1923-1924, law No. 5249-----	351. 5. 00	
Irrigation works, law No. 5249-----	142, 244. 3. 33	
Overdue coupons of the internal debt--		
Debt account Republic of Peru, 7 per cent cédulas of the consolidated internal debt of 1918-----	38, 527. 6. 94	
Payment to the banks for account of their loans for the national defense: Law No. 5249-----	51, 106. 1. 60	
Special promissory notes for national defense: Electric Boat Co., 2 months of \$52,000-----	26, 000. 0. 00	
Difference in exchange on special promissory notes-----	3, 288. 6. 74	
Air service purchases, law No. 5249-----	15, 895. 4. 58	
Interest on Dreyfus French claims: Law No. 5249, Fcs. 4,206,053.66-----	34, 651. 3. 45	
Purchase of shares of Peruvian Steamship & Dock Co. of Callao-----	5, 740. 1. 00	
1927 Budget balances of 1922-1924-----	108, 074. 4. 43	
Purchase of shares of the Peruvian Steamship Co.-----	10, 924. 2. 40	
Overdue coupons of the internal debt-----	500. 0. 00	
Disbursements, law No. 5249-----	498. 7. 50	
1928 Budget balances of 1922-1924-----	52, 496. 6. 95	
Siderurgical coal commission-----	4, 074. 0. 00	
Purchase of shares of the Peruvian Steamship & Dock Co. of Callao-----	5, 321. 8. 90	
National defense, law No. 5249-----	16, 431. 9. 00	
National defense, construction of military quarters-----	10, 000. 00. 00	
Plebiscitary expenses-----	33, 634. 5. 66	
1929 Budget balances of 1922-1924-----	10, 126. 3. 04	

1, 668, 303. 7. 98

SANITATION LOAN, 8 PER CENT, 1926-1944, \$2,000,000

*Net proceeds of loan*

1926 (Law No. 4126)----- Lp.493, 162. 1. 11

*Application of proceeds*1926 Sanitary works..... Lp.493, 162. 1. 11

GOLD BONDS, 7½ PER CENT, 1926-1956, \$16,000,000

*Net proceeds of loan*1926 (Law No. 5461)..... Lp.3, 617, 086. 6. 74*Application of proceeds*

1926 Sanitary works, law No. 5461..... Lp.49, 612. 9. 29

Company for tax collection:

Payment of Lp.1,245,000 loan in accordance with  
law No. 5461..... 1, 245, 000. 0. 00

Railroad construction..... 161, 115. 9. 57

Irrigation works..... 719, 150. 4. 00

Service on this loan, September-December..... 126, 435. 3. 85

Company for tax collection: Revenue drawing account... 263, 340. 0. 00

National defense investments..... 228, 385. 4. 52

Balance banking loan, account additional tax on sugar... 251, 145. 0. 00

Excess plebiscitary expenses in 1925..... 75, 492. 2. 98

Plebiscitary expenses..... 342, 225. 8. 27

1927 Plebiscitary expenses..... 114, 601. 8. 96

1928 Plebiscitary expenses..... 40, 581. 5. 30

3, 617, 086. 6. 74REPUBLIC OF PERU, SECURED 7 PER CENT SINKING FUND GOLD BONDS, 1927-1959,  
\$15,000,000*Net proceeds of loan*1927 (Laws Nos. 5654 and 5743)..... Lp.3, 418, 027. 8. 46*Application of proceeds*

1927 Expenses to establish agricultural bank..... Lp.5, 739. 9. 03

Expenses, law No. 5654..... 10, 587. 9. 82

Building for tobacco manufacturing plant<sup>1</sup>..... 98, 282. 3. 68Equipment for tobacco manufacturing plant<sup>1</sup>..... 137, 353. 8. 50

Service on loan, April-December, 1927..... 240, 826. 8. 07

Extension naval school building..... 40, 380. 0. 07

Improvement in hydroaviation service..... 112, 823. 4. 32

Railroad construction..... 628, 181. 7. 53

Highways..... 318, 185. 4. 93

Sanitation..... 586, 967. 1. 11

Irrigation works..... 733, 630. 3. 16

Tobacco bonds and redemption commission..... 386, 443. 3. 75

1928 Equipment for tobacco manufacturing plant..... 10, 882. 3. 52

Improvement in hydroaviation service..... 11, 951. 4. 78

Railroad construction..... 94, 750. 3. 14

Extension naval school building..... 1, 041. 3. 00

3, 418, 027. 8. 46<sup>1</sup> Managed by internal tax collection department of office of deposits and consignments.

PERUVIAN NATIONAL LOAN, 6 PER CENT EXTERNAL SINKING FUND GOLD BONDS, FIRST SERIES, 1927-1960, \$50,000,000—SECOND SERIES, 1928-1961, \$25,000,000—SECOND SERIES, 1928-1961, £2,000,000

*Net proceeds of loans*

1927 Peruvian national loan, 6 per cent external sinking fund gold bonds, first series, 1927-1960, \$50,000,000 (law No. 5930)-----	Lp. 8, 789, 226. 4. 21
1928 Peruvian national loan, 6 per cent external sinking fund gold bonds, second series, 1928-1961, \$25,000,000 and £2,000,000 (law No. 5930)-----	5, 673, 818. 3. 64
Profit in exchange on these loans-----	697, 530. 0. 81
	<hr/> <hr/> 15, 100, 574. 8. 66

*Application of proceeds*

## 1927 Loans:

Bonds purchased by Seligman & Co.  
for account of the Government,  
law No. 5930:

Sanitation loan, 1924-----	Lp. 28, 870. 8. 52
Sanitation loan, 1926-----	121, 031. 5. 42
Petroleum loan, law No. 5249----	150, 827. 0. 83
Gold bonds, 7½ per cent, law No. 5461-----	579, 060. 9. 27
Tobacco loan, law No. 5654-----	853, 899. 1. 06

1, 733, 689. 5. 10

Redemption commission and expenses  
on account of purchase of bonds by  
Seligman & Co.:

Sanitation loan, 1924-----	3, 224. 6. 52
Sanitation loan, 1926-----	13, 878. 1. 40
Petroleum loan, law No. 5249----	12, 314. 8. 20
Gold bonds, 7½ per cent, law No. 5461-----	54, 151. 4. 22
Tobacco loan, law No. 5654-----	48, 670. 9. 98

132, 240. 0. 32

Tobacco tax bonds----- 385, 000. 0. 00  
Tobacco tax bonds, redemption-- 1, 443. 3. 75

386, 443. 3. 75

December service on Peruvian national loan, law No. 5930-----

59, 933. 5. 60

Railroad construction, law No. 5930-----

161, 474. 1. 85

Highways construction, law No. 5930-----

151, 279. 4. 18

Sanitary works, law No. 5930-----

110, 042. 9. 80

Irrigation works, law No. 5930-----

187, 017. 8. 76

## Loans:

Payment of the following, law  
No. 5930--

Sanitation loan, 1924-----	1, 150, 859. 3. 91
Sanitation loan, 1926-----	285, 063. 6. 04
Petroleum loan, law No. 5249-----	1, 234, 479. 5. 90
Gold bonds, 7½ per cent loan, law No. 5461-----	2, 813, 458. 7. 69

5, 483, 861. 3. 54

Ministry of Finance and Com-  
merce--

Callao Port Works, law No. 5930-----	589, 054. 1. 85
Port works technical in- spection-----	1, 609. 8. 45

590, 664. 0. 30

1927 Loans—Continued.

Loans—Continued.

Ministry of Public Works—

Railroad construction, law

No. 5930-----

Lp. 649, 549. 8. 50

Highways construction-----

717, 489. 9. 31

Sanitary works-----

626, 456. 9. 65

Irrigation works-----

565, 086. 0. 00

1929 Loans:

5 per cent gold bonds, Huacho

Railroad, 1920-1946-----

590, 893. 1. 01

Salt loans, 5½ per cent, 1909-

1938-----

616, 938. 8. 56

Lp. 2, 558, 582. 2. 46

1, 207, 831. 9. 57

Ministry of Finance and Com-

merce: Balance of service on

Peruvian national loan, second

series-----

91, 925. 0. 00

Ministry of Public Works—

Siderurgical coal commission.

3, 426. 0. 00

Railroad construction-----

641, 792. 9. 69

Pisco-Castrovirreyra Railroad.

138, 261. 6. 05

Highways construction-----

420, 621. 7. 44

Sanitary works-----

492, 854. 5. 59

Irrigation Works—

Law 5930-----

541, 527. 4. 90

"La Esperanza" Irrigation---

67, 104. 9. 76

1, 696, 956. 8. 77

608, 632. 4. 66

15, 160, 574. 8. 68

APPENDIX 5

OFFICIAL TABLE OF FUNDED DEBT AS OF DECEMBER 31, 1930, AND OF ANNUAL SERVICE CHARGES THEREON

Funded debt as of December 31, 1930

Description	Amount out- standing	Annus service charges
IN UNITED STATES DOLLARS—EXTERNAL		
Republic of Peru, secured 7 per cent sinking fund gold bonds, 1927-1959 (usually called the 7 percent tobacco loan)-----	\$14, 447, 500	\$1, 200, 000
Peruvian national loan 6 per cent external sinking fund gold bonds, first series, 1927-1960 (usually called the 1st series 6 per cent national loan)-----	48, 383, 000	3, 500, 000
Peruvian national loan 6 per cent external sinking fund gold bonds, second series, 1928-1961 (usually called the 2d series 6 per cent national loan, dollar tranches)-----	1 24, 469, 500	1, 750, 000
Promissory notes, Electric Boat Co.-----	1, 081, 641	624, 000
Total, without Province of Callao 7½ per cent bonds-----	88, 381, 641	7, 074, 000
Province of Callao, guaranteed and secured sinking fund 7½ per cent gold bonds, 1927-1944-----	1 1, 249, 500	166, 000
Total, with Province of Callao 7½ per cent bonds-----	89, 631, 141	7, 239, 000
IN POUND STERLING—EXTERNAL		
Honorable provincial council of Lima municipal loan, 5 per cent, 1911-1965, city of Lima provincial council 5 per cent first mortgage bonds-----	£491, 800	£33, 265
Peruvian Government 7½ per cent, guano loan, 1922-1948-----	1, 085, 300	114, 400
Peruvian national loan 6 per cent, external sinking fund gold bonds, second series, 1928-1961 (usually called the 2d series 6 per cent national loan, pound sterling tranche)-----	1, 958, 200	140, 000
Total-----	3, 535, 300	267, 665
IN POUNDS STERLING—INTERNAL		
Republic of Peru, 8 per cent special banking internal loan, 1924-1944-----	418, 000	50, 926
Mortgage bonds of the Huando-Esperanza Corporation, 1926-----	1 102, 000	13, 800
Total-----	520, 000	64, 726
Total, pound sterling bonds, both external and internal-----	4, 055, 300	352, 391

<sup>1</sup> Extra amortization of \$8,000; scheduled amount outstanding, \$24,477,500.

<sup>2</sup> Extra amortization of \$45,000; scheduled amount outstanding, \$1,294,500.

<sup>3</sup> Last amortization payment of 1930 for £3,000 not made; scheduled amount outstanding, £99,000.

## Funded debt as of December 31, 1930—Continued

Description	Amount out- standing	Annual service charges
IN SOLES—INTERNAL		
Republic of Peru, consolidated 1 per cent loan of 1889 (vales de consolidacion, 1 per cent, 1889), nominal amount \$/21,187,750 (carried officially at amount indicated because convertible at 14 per cent of their nominal value into the consolidated 7 per cent internal debt of 1918)..... <sup>2</sup>	\$/2,466,285	\$/211,878
Republic of Peru, redeemable debt of 1898.....	751,350	425,000
Republic of Peru, 7 per cent cedulas of the consolidated internal debt of 1918.....	31,243,200	2,700,000
Huacho 8 per cent sanitation loan of 1923.....	80,000	36,400
Republic of Peru, internal 8 per cent postal loan, 1924-1944.....	675,000	4104,000
Republic of Peru, internal 8 per cent bonds, 1929-1949.....	10,558,000	1,500,000
Republic of Peru, internal 6 per cent public works loan, 1930-1953.....	4,486,900	1,440,000
(Source: Chart signed by Jose E. Gutierrez, public debt accountant, ministry of finance and commerce "public debt," accounting department.)		
Collection department, office of deposits and consignments, 10 per cent loan of 1927.....	2,988,000	298,600
Children's hospital bonds, 8 per cent, of 1929-1949..... <sup>1</sup>	675,000	60,000
Total.....	54,651,735	6,570,878

<sup>1</sup> Amortization only; no interest payable on this loan.

<sup>2</sup> No fixed amount; amortization paid depends on revenues collected under laws Nos. 4110 and 2870.

<sup>3</sup> Next service payment only, annual amortization fixed (\$/50,000); interest charges decrease annually with amortization of loan.

<sup>4</sup> Source: Data furnished by the office of deposits and consignments (caja de depositos y consignaciones).

<sup>5</sup> Source: Data furnished by the Banco Italiano.

## APPENDIX 6.—FLOATING AND OTHER SHORT-TERM DEBT AS OF DECEMBER 31, 1930

## A. BANK LOANS AND OTHER SHORT-TERM CREDITS REPRESENTED BY NOTES OR SIGNED AGREEMENTS

	Dollars
Short-term credit from J. & W. Seligman & Co., dated Nov. 1, 1930.....	1,323,039
Loan from the Cerro de Pasco Corporation for port works.....	1,628,000
International Petroleum Co.: "Juanillo".....	510,000
International Petroleum Co.:	
Loan of Dec. 3, 1929.....	1,000,000
Interest thereon.....	64,879
	1,064,879
International Petroleum Co.:	
Contract of Sept. 26, 1930.....	400,000
Interest thereon.....	6,378
	406,378
United Aircraft Exports (Inc.).....	704,600
Frederick Snare Corporation:	
Contract of May 6, 1930.....	1,100,000
Interest thereon.....	44,000
	1,144,000
Total.....	6,780,896
	Pounds
Midland Bank of London, current account.....	709
Drafts on the legation in London.....	87,000
Paramonga Agricultural Co., loans for the construction of the dock at Supe.....	24,796
San Nicolás Agricultural Co., loans for the construction of the dock at Supe.....	24,836
Peruvian Corporation (Ltd.), for the construction of the dock at Mollendo.....	60,302
Total.....	206,643

Treasury drafts:	Solea
1922-23-----	5, 124
1924-----	7, 989
1925-----	220
1926-----	2, 884
1927-----	2, 268
1930-----	345, 841
	<hr/>
	364, 328
Treasury notes-----	1, 370, 500
	<hr/>
Treasury warrants:	
Decree law of Nov. 28, 1930-----	733, 333
Other-----	778, 300
	<hr/>
	1, 511, 633
	<hr/>
Drafts on the office of deposits and consignments, decree law No. 6913, discounted as follows:	
Banco Italiano-----	2, 100, 000
Banco Internacional-----	900, 000
Banco Popular del Perú-----	600, 000
Banco Alemán Transatlántico-----	600, 000
The National City Bank of New York-----	600, 000
Anglo South American Bank-----	600, 000
The Royal Bank of Canada-----	600, 000
	<hr/>
	6, 000, 000
Drafts on the collection department of the office of deposits and consignments, in anticipation of tax collections-----	4, 121, 993
Office of deposits and consignments, current account of the Supreme Government-----	600, 091
	<hr/>
Bank loans authorized by law No. 6745:	
Banco del Perú y Londres-----	833, 333
Banco Italiano-----	916, 666
Banco Internacional-----	333, 333
Banco Popular del Perú-----	166, 667
Banco Alemán Transatlántico-----	216, 667
National City Bank of New York-----	216, 667
Anglo South American Bank-----	216, 667
Royal Bank of Canada-----	216, 667
Savings Bank of Lima-----	83, 333
	<hr/>
	3, 200, 000
Bank of Peru and London, loan of June 1, 1930-----	53, 713
The Royal Bank of Canada, loan for the construction of the Avenida Costanera-----	6, 585
Banco Italiano, current account-----	2, 241, 836
Banco Italiano, notes of the Peruvian Steamship & Dock Co. of Callao-----	97, 383
	<hr/>
International Petroleum Co.:	
Loan of Dec. 30, 1930-----	1, 500, 000
Interest thereon-----	493
	<hr/>
	1, 500, 493
Supé Dock Administration Co.-----	42, 074
Construction Co. for the Pisco-Castrovirreyra Railroad (estimated)-----	1, 673, 164
Cerro Azul Dock Construction Co.:	
Construction account-----	610, 071
Current account-----	108, 254
	<hr/>
	718, 325
Tambo de Mora Dock Construction Co., current account-----	56, 771
Peruvian Corporation, Pacasmayo Dock-----	185, 330
Fiscal Warehouse Administration Co.-----	365, 140
Credits not passed upon by the board of audit and review-----	1, 870, 691
Credits approved by the board of audit and review-----	17, 217
	<hr/>

	Soles
Office of deposits and consignments:	
Loan for the national defense.....	745,723
Loan to the Peruvian Salt Co.....	350,000
	<u>1,095,723</u>
Total.....	27,092,988

## B. ACCOUNTS PAYABLE

	Dollars
Balances due on budgets previous to the 1930 budget.....	<u>324,624</u>
1930 Budget:	
Ministry of foreign relations.....	50,456
Ministry of war.....	50,179
Ministry of marine.....	4,169
	<u>104,804</u>
Accounts payable from special funds:	
Ministry of public works--	
Law No. 6745.....	20,180
Law No. 6752.....	264,901
	<u>285,081</u>
Total.....	714,509
1930 budget:	Pounds
Ministry of foreign relations.....	4,900
Ministry of justice.....	1,794
Ministry of finance.....	217
Ministry of war.....	5,710
	<u>12,621</u>
Accounts payable from special funds:	
Ministry of public works, law No. 6752.....	122,191
Total in pounds sterling.....	<u>134,812</u>
1930 budget:	Pesetas (Spanish)
Ministry of justice.....	1,500
Ministry of war.....	45,000
Total.....	<u>46,500</u>
Balances due on budgets previous to the 1930 budget.....	<u>5,057,441</u>
1930 Budget:	
Ministry of government.....	628,902
Ministry of foreign relations.....	338,535
Ministry of justice.....	935,150
Ministry of finance.....	572,784
Ministry of war.....	469,610
Ministry of marine.....	319,681
Ministry of public works.....	1,221,738
	<u>4,486,400</u>
Accounts payable from special funds:	
Ministry of justice.....	207,090
Ministry of public works--	
Law No. 6745.....	2,014,545
Law No. 6752.....	11,793,349
	<u>14,014,934</u>
Total.....	<u>23,558,825</u>

(Witness excused.)

**TESTIMONY OF FREDERICK J. LISMAN, INVESTMENT BANKER,  
NEW YORK, N. Y.**

(The witness was duly sworn by the chairman of the committee.)

Senator JOHNSON. Please state your full name and occupation.

Mr. LISMAN. Frederick J. Lisman; investment banker.

Senator JOHNSON. How long have you been engaged in that business?

Mr. LISMAN. Over 40 years.

Senator JOHNSON. Where?

Mr. LISMAN. In New York City.

Senator JOHNSON. Is anybody associated with you?

Mr. LISMAN. I was formerly the head of the firm of F. J. Lisman & Co., which went out of business on December 31, 1930.

Senator JOHNSON. Now you are by yourself?

Mr. LISMAN. Now I am semiretired.

Senator JOHNSON. The firm of which you were a member was in existence for a number of years?

Mr. LISMAN. Yes. It was in existence with different partners for some thirty and odd years.

Senator JOHNSON. Have you a list of the loans that you made or that you floated for South America?

Mr. LISMAN. I got up a list hurriedly of all the loans we floated. I could not respond promptly, because I did not get the wire until 2 o'clock on Saturday, and our books and records are in storage and very much disarranged as they would be under the circumstances. Our partners are scattered, and I really have not informed myself as fully as I would like to; but I came in response to a wire to appear here this morning. I understand that another one was sent late in the afternoon, which I did not receive. I want to say that the report is made subject to a good many corrections. Of course, the gross earnings do not mean anything. The expenses are pretty heavy.

Senator JOHNSON. I will ask that this statement which has just been handed to me be made a part of the record.

The CHAIRMAN. It will be so recorded.

(The statement referred to and submitted by the witness is here printed in full, as follows:)

Date of issue		Amount	Purchase price	Sale price	Gross profit	Direct expense	Commission	Net profit
1923	Salvador 8's, 1948.....	\$6,000,000.00	90	100	\$800,000.00			
July 1, 1925	Heidelberg 7's, 1950.....	1,500,000.00	90	98½	127,500.00	\$23,288.41	\$57,035.00	\$47,176.59
Aug. 25, 1924	Lower-Austrian hydroelectric 6½'s, 1944.....	3,000,000.00	68.72	85	488,400.00	68,220.96	150,000.00	270,179.04
Apr. 21, 1927	Tyrol Hydroelectric 7's, 1952.....	3,000,000.00	88	97½	315,000.00	43,802.18	116,500.00	164,697.82
Apr. 22, 1925	Tyrol hydroelectric 7½'s, 1955.....	3,000,000.00	81½	96½	450,000.00	64,398.19	61,511.00 150,000.00	174,190.81
Apr. 2, 1927	Bank Colombia 7/47.....	2,000,000.00	89¼	96½	145,000.00	20,000.00	7,500.00 50,000.00	67,500.00
June 21, 1928	Bank Colombia 7/48.....	1,014,000.00	88	94¼	68,445.00	29,500.00	30,420.00	5,525.00
Mar. 14, 1925	Alpine Montan Steel Corporation 7½'s, 1955.....	5,000,000.00	82	91	527,500.00	28,598.62	65,575.00 243,459.27	189,367.11
Feb. 17, 1927	First Bohemian Glass 7's, 1937.....	1,500,000.00	87½	97¼	140,250.00	45,000.00	19,316.27 30,000.00	81,933.73
June 4, 1926	Milag Mill Machinery.....	3,000,000.00	82	92½	315,000.00	40,698.44	150,000.00 40,000.00	94,301.56
Jan. 20, 1925	Rima Steel Corporation 7's/55.....	3,000,000.00	72	88	480,000.00	61,683.67	150,000.00	
July 7, 1924	Carlsbad 8's.....	1,000,000.00						228,316.33
Nov. 23, 1925	Brunner 7½'s.....	3,500,000.00	82¼	95¼	472,500.00	105,790.48	20,000.00 143,012.50	262,438.02
Jan. 20, 1926	Sachsen Anhalt Electric 6½'s serial 1926, 1927, 1928.....	1,000,000.00	95.62	(1)	30,038.74			
	International Railway of Central America 5/72.....	3,500,000.00	(2)	(2)	(1)	(1)	(1)	(1)

1 6¼ per cent basis.  
 \* Various prices under option.  
 † Sales price at the prevailing market prices.

From the above should be deducted commissions paid on account of secondary marketing as well as overhead expenses running during the period at from \$40,000 to \$60,000 per month.

Senator JOHNSON. Are any of those flotations defaulted?

Mr. LISMAN. Yes. There is one Czechoslovakia loan which was defaulted some four years ago, and settlement was made subsequently.

The CHAIRMAN. Settlement was made on what basis?

Mr. LISMAN. Forty-eight cents on the dollar.

The CHAIRMAN. Did they pay cash, 48 cents on the dollar?

Mr. LISMAN. Yes.

The CHAIRMAN. How much was the loan?

Mr. LISMAN. It was a \$4,000,000 loan.

The CHAIRMAN. When was it made?

Mr. LISMAN. In 1925.

The CHAIRMAN. When did it default?

Mr. LISMAN. It defaulted late in 1926. That is a long story. There was some misrepresentation and the auditors did not catch certain things, and so on.

Senator JOHNSON. I notice the first of these loans is Salvador.

Mr. LISMAN. Yes.

Senator JOHNSON. What was the rate of interest on that loan?

Mr. LISMAN. Eight per cent.

Senator JOHNSON. And the amount was \$8,000,000?

Mr. LISMAN. Six million.

Senator JOHNSON. I think it is \$8,000,000 here.

Mr. LISMAN. It is \$8,000,000, but it should be \$6,000,000. That is an error.

Senator JOHNSON. The gross profit on it was \$800,000?

Mr. LISMAN. Gross profit \$600,000.

Senator JOHNSON. Purchase price 90, and the sale 100?

Mr. LISMAN. Yes, sir. I should amend that. I understand that the Salvador Government only quoted 88, but we did not buy these bonds from the Salvador Government.

Senator JOHNSON. From whom did you buy them?

Mr. LISMAN. I either bought them from Miner C. Keith or the International Railways of Central America, I forget which. It was some eight years ago.

Senator JOHNSON. The bonds are paying you interest?

Mr. LISMAN. Yes, and 4 per cent sinking fund.

Senator JOHNSON. Has there been a revolutionary Government in Salvador?

Mr. LISMAN. Yes.

Senator JOHNSON. And the revolutionary Government has continued to pay.

Mr. LISMAN. Yes. I should amend that by saying that before the revolutionary Government came into power the funds were accumulated already to pay the January coupons, but since the 1st of January the collector has begun collecting money due the bondholders in accordance with the contracts.

The CHAIRMAN. January of what year?

Mr. LISMAN. Since the 1st of January of this year; and the Salvador Government has given assurances that they will not interfere with the collection.

Senator JOHNSON. The revolution has not affected these securities?

Mr. LISMAN. It has not.

Senator JOHNSON. Has the State Department consulted you regarding your views as to the revolutionary Government?

Mr. LISMAN. No, sir.

Senator JOHNSON. It has not come to you from the new President of the Republic?

Mr. LISMAN. It has not.

Senator JOHNSON. We have here Heidelberg; also Lower Austrian Hydro-Electric and Tyrol Hydro-Electric, and then another Tyrol Hydro-Electric?

Mr. LISMAN. Yes; two loans.

Senator JOHNSON. Bank of Colombia, \$2,000,000. What is that?

Mr. LISMAN. That is a mortgage bank in Colombia. You will find another one right after that.

Senator JOHNSON. Immediately after that?

Mr. LISMAN. Yes.

The CHAIRMAN. Have they defaulted?

Mr. LISMAN. The coupon, I think, is due in March or April, and it is my understanding that with an embargo on exchanges they will default; but they have not defaulted thus far.

The CHAIRMAN. They are able to pay it, provided they can get the money out of the country?

Mr. LISMAN. Precisely.

Senator JOHNSON. Alpine Montan Steel Corporation. What is that?

Mr. LISMAN. That is the biggest steel company in Austria. They are paying their interest and sinking fund.

Senator JOHNSON. And the First Bohemian Glass? What is that?

Mr. LISMAN. That is a glass company, the largest glass company in Czechoslovakia. They are also paying their interest and sinking fund.

Senator JOHNSON. The purchase price is 87½; sale price 97¼?

Mr. LISMAN. Yes.

Senator JOHNSON. Miag Mill Machinery. What is that?

Mr. LISMAN. That is a German corporation which makes all kinds of milling machinery and things of that kind. They do a heavy export business.

Senator JOHNSON. Rima Steel Corporation?

Mr. LISMAN. That is the largest steel corporation in Hungary.

Senator JOHNSON. Carlsbad?

Mr. LISMAN. The city of Carlsbad, in Czechoslovakia.

Senator JOHNSON. Brunner 7½?

Mr. LISMAN. That is a large turbine and manufacturing company in Czechoslovakia.

The CHAIRMAN. Is Czechoslovakia in pretty good shape?

Mr. LISMAN. Yes, sir.

The CHAIRMAN. Business is pretty good there?

Mr. LISMAN. Czechoslovakia seems to be the only country in Europe which has constantly thus far maintained a favorable trade balance, or one of the few countries, I might say; and they have bought back their own securities, very largely.

Senator JOHNSON. You bought those at 84 and sold them for 95¾?

Mr. LISMAN. That is the gross spread.

Senator JOHNSON. Was it taken by you alone or in conjunction with somebody else?

Mr. LISMAN. It was taken by us in conjunction with some banks in Czechoslovakia and Austria.

Senator JOHNSON. Sachsen Anhalt Electric. What was that?

Mr. LISMAN. An electric municipal bond which has since been paid off.

Senator JOHNSON. International Railway of Central America?

Mr. LISMAN. That is a railway in Guatemala and Salvador.

Senator JOHNSON. Owned by whom?

Mr. LISMAN. Supposed to be owned by the Miner C. Keith estate. There are rumors that the ownership has changed hands, but I have no definite knowledge on the subject.

Senator JOHNSON. You have the note here "Various prices under option."

Mr. LISMAN. They were purchased at a fixed amount with option on the balance and sold at the market price at the time, these bonds being listed on the stock exchange and a liberal commission to dealers who placed them was paid.

Senator JOHNSON. Do you know at what price you purchased them and what profits you got?

Mr. LISMAN. My impression is that we purchased them between 70 and 75 and sold them at a price ranging from 77 to 80. I tried to get the records last night, but, as I say, the matter is all in our vaults, in storage, and my former partner was chased out of the storage vault in Brooklyn at 5 o'clock and could not gather those papers. I will be glad to supply you any additional information, of course.

Senator JOHNSON. Have you a statement of your dealings with Peru?

Mr. LISMAN. I have not, because we did not deal direct with Peru.

Senator JOHNSON. Whom did you deal with?

Mr. LISMAN. We initiated the business in a certain way. If you will allow me to state it in my own way, I will tell you the history of the loan.

Senator JOHNSON. State it in your own way.

Mr. LISMAN. There was in our employ a gentleman who said a friend of his, Mr. Bolster, had great influence in Peru through friends down there, and he wanted us to send down because there were great opportunities for business in Peru. After considerable hesitation and consultation we did send down to Peru a man by the name of Thomas V. Salt, sometime in 1926, to study the business and to report to us. Salt had no authority, and he came back and the business was practically dropped. But after he returned we got certain cables and the matter was taken up.

In the meanwhile we had spoken to J. and W. Seligman & Co. because we felt that the business was too large for us; and when the matter was taken up again J. and W. Seligman sent down a man by the name of Maginnis who was followed in a week or ten days by one of my former partners, Mr. Manasse; and they carried on negotiations.

I have been asked to bring all contracts we have. We only have a letter which was exchanged when Mr. Salt was first down there with Bolster and in which we agreed to pay him a fair commission on any business which we might do in Peru within five years. I have not that contract with me. I expect to furnish it to you within

a day or two. I could not locate it yesterday. But I know that is the contract. There was no fixed commission.

Thereupon when Mr. Salt first went down there he found that Bolster's friend, a man by the name of Chester, whom Bolster represented as being a man of great influence in Peru, had no influence whatever; that he was a photographer. He had made acquaintances with a lot of people around Lima, as foreigners will, but he had absolutely no influence.

Whereupon Mr. Salt tried to get an introduction to the President, Mr. Leguia. I think he succeeded; but in the meanwhile, either through Chester or in some way, he ran up against Juan Leguia, who, as I am told by all parties, tries to rub up against every foreigner who comes to Peru and tries to do business with him, with a view of horning in on any commission or transaction he might get.

Salt cabled us about Juan, and we did not have anything to do with him. Salt had no authority to bind us, but as I understand it, subsequently he did make some agreement with Juan Leguia that he was to be recognized as a member of the Bolster group. Therefore the statement made to you by the Seligman partners about Juan Leguia being in that group is undoubtedly correct, and I agree to that. But we had no contact with Juan Leguia, and, as I saw it, he was in position to block whatever anyone might do. I do not think he had any influence particularly with his father, except a negative one, and he was known around Lima as spoiling business for anybody who might start something, because if you wanted information around the departments—I know Mr. Manasso told me that he tried to see the President and Juan kept him waiting at the palace for four hours, and, I believe, he did not see him that day. But I had no contact with him. I did not know until I saw published in the papers on Friday how much Juan got.

My partners remind me of the fact that there was more or less discussion at the time and that the conclusion was arrived at that the group had better pay something to Juan Leguia, otherwise all the money we spent on the business would be lost. In other words, as I look upon it, Juan Leguia blackmailed us into paying him. I do not believe his father got a cent.

Senator JOHNSON. What did you pay him for?

Mr. LISMAN. For nuisance value. I did not pay him. J. and W. Seligman came to the conclusion that he was part of the Bolster group and that one-half per cent was a fair commission, and that Juan being a member of that group was entitled to it. Bolster died in the meanwhile—

Senator JOHNSON. How did Bolster get his money?

Mr. LISMAN. He got part of the half per cent; Juan got part and Bolster got part.

Senator JOHNSON. Somebody else got part too, did they not?

Mr. LISMAN. If they did, I do not know it.

Senator JOHNSON. Did not Mr. Salt get something?

Mr. LISMAN. Oh, yes; that is right. We paid Salt a certain amount of commission, and I think that was on top of it—

Senator JOHNSON. What for?

Mr. LISMAN. Salt started these transactions. Salt employed a lawyer, and threatened suit and we made a settlement. Banking

houses do not like suits, because they know that juries usually soak a banking house.

Senator JOHNSON. Sometimes they ought to be soaked?

Mr. LISMAN. Sometimes, yes; they should, undoubtedly. Sometimes they should not. I think, more times they should not.

Senator JOHNSON. Was any part of the agreement to pay them any money in writing?

Mr. LISMAN. The only writing was a letter sent to Bolster.

Senator JOHNSON. Sent by whom?

Mr. LISMAN. By F. J. Lisman & Co. some time in 1926.

Senator JOHNSON. Was that the origin of the payments subsequently to Bolster and others?

Mr. LISMAN. It was.

Senator JOHNSON. Will you submit that letter here?

Mr. LISMAN. I will agree to do so.

Senator JOHNSON. A letter to Bolster in which you agreed to pay him a commission; is that correct?

Mr. LISMAN. Yes.

(Letter from Bolster & Co. to F. J. Lisman & Co.):

BOLSTER & Co. (INC.),  
New York, January 6, 1926.

Messrs. F. J. LISMAN & Co., *New York City.*

DEAR SIR: The following is our understanding of the conference held to-day at your office, at which the following were present: Messrs F. J. Lisman, Mitchell May, A. O. Corbin, A. D. Mendes, T. V. Salt, Col. B. F. Castle, and Harold Bolster.

Whereas, we have approached you for the purpose of interesting you in certain business that we have in process of negotiation through our associates in the Republic of Peru; and

Whereas, owing to the limitation of time before sailing, we have agreed to certain arrangements, which arrangements at a later date are to be embodied in a written agreement to be executed between us, it is understood as follows:

You have agreed to send a representative with our Mr Bolster to Peru to investigate the business that we have proposed to you, and provided you decide to do business in Peru, it is understood and agreed as follows:

That a corporation will then be created to handle such selected business as might arise from our introductions to your representative and that we will first present to you all Peruvian business which might come to our attention, in order that it may be handled by you directly or through the said corporation.

The shares of the proposed corporation are to be divided between you, ourselves, and associates in a proportion to be mutually agreed upon. The amount and character of the capital (probably nominal) of the corporation and its organization shall be mutually agreed between us.

As a further consideration, it is understood and agreed that we and our associates are to receive a commission or compensation on any financing carried out by you, except business done through the above-named corporation in Peru. The amount of said commission or compensation is to be mutually agreed upon from time to time in respect of each piece of business.

It is further understood that this agreement is to be effective for a period of five years, unless your representative, Mr. T. V. Salt, within 60 days after his arrival at Lima, Peru, finds reasonable grounds for believing that our representations are incorrect as to the character of our connections in the Republic of Peru.

The terms of this agreement shall be embodied in a formal contract within a reasonable time after expiration of the said period of 60 days.

Please indicate below your acceptance of the terms of this letter.

Yours very truly,

BOLSTER & Co.

Senator JOHNSON. An unnamed commission?

Mr. LISMAN. Yes, sir.

Senator JOHNSON. When was it that you learned, as you expressed it, that Juan Leguia horned in?

Mr. LISMAN. I had clean forgotten about the matter until I heard about this testimony here on Friday; and in talking with my former partners yesterday and Seligmans and reading the testimony, it came to me that some conversation took place at the time that Juan was in this business, and I heard about it, that Juan was in New York splurging, spending money.

Senator JOHNSON. With whom did you have the conversation?

Mr. LISMAN. Back in 1927 or 1928 or recently?

Senator JOHNSON. With whom?

Mr. LISMAN. I mean, what time do you refer to?

Senator JOHNSON. You said there was some conversation in which later you were told that Juan Leguia was horning in on the situation.

Mr. LISMAN. Undoubtedly it was back in 1927 when the loan was made. It was either Mr. Manasse or Mr. Corbin or possibly Mr. Salt at the time.

Senator JOHNSON. Was Mr. Breck, of Seligman & Co., familiar with that situation?

Mr. LISMAN. I understand that Mr. Breck went down to Peru subsequently to Mr. Maginnis, and Mr. Manasse's going home. Yes; he certainly must have been familiar with it, because it was Mr. Breck who carried on the burden of those negotiations. We were completely out of it. We did not get a commission out of the business, but we were a member of the originating group and made some profit that way.

Senator JOHNSON. What did Mr. Maginnis have to do with it?

Mr. LISMAN. He was sent down to Lima by the Seligmans.

Senator JOHNSON. What was his occupation?

Mr. LISMAN. Their agent. I had never heard of him before. I subsequently heard that he had been an American minister, I believe, in Bolivia.

Senator JOHNSON. Was anything agreed to be paid him in the matter of commission?

Mr. LISMAN. I had no negotiations with Mr. Maginnis. Whatever was agreed was between Seligmans and Maginnis.

Senator JOHNSON. Do you know whether he horned in too?

Mr. LISMAN. I understood that he subsequently did get a check.

Senator JOHNSON. For what?

Mr. LISMAN. For his services in Peru.

Senator JOHNSON. What services did he render?

Mr. LISMAN. He originated or got the business.

Senator JOHNSON. Is he the man who got the business?

Mr. LISMAN. It is like all transactions. Every man that is in it claims that he got it. I suppose he did his share.

Senator JOHNSON. What got the business was the payment of that \$600,000, was it not?

Mr. LISMAN. I would not say so; no.

Senator JOHNSON. Did you not say that unless you did just that sort of thing Juan Leguia would queer the whole thing?

Mr. LISMAN. I did say that. I did not say that he got the business, and that if we had not paid it to him he would have queered it. It was not a bribe; it was a blackmail.

Senator JOHNSON. That is, he blackmailed you?

Mr. LISMAN. The bankers' group.

Senator JOHNSON. But you paid it to get the business?

Mr. LISMAN. Yes. In fact, not to have him interfere with the business. Or, if you choose to put it the other way, I think that is a rather stretched sense of it, because we did not bribe any government official. We paid money to somebody who had no official position whatever for the purpose of keeping him from spoiling our business, from not being able to get information which we needed in order to do our business. When I say "we" I am rather stretching it, because J. & W. Seligman carried on the transaction, and F. J. Lisman & Co., after having turned the trade over to Seligman, we had completely—

Senator JOHNSON. Do you run across that sort of thing often in Latin-American countries?

Mr. LISMAN. I had heard of it quite often; yes.

Senator JOHNSON. That is, somebody who is related to the reigning power, or some particular official, will queer the whole pitch unless he is taken care of?

Mr. LISMAN. Those are the rumors one hears.

Senator JOHNSON. Is that generally known among the international bankers?

Mr. LISMAN. I do not know what other people know; I can not answer as to that; but I would say that people are more or less cognizant of it.

Senator JOHNSON. Do you know whether or not there are any other instances where commissions have been paid to parties who were interested in the government?

Mr. LISMAN. I rather object to your question there—"parties interested in the government." Juan Leguia was not interested in the government.

Senator JOHNSON. He had sort of a family interest in it.

Mr. LISMAN. He was the son of the President; of course.

Senator JOHNSON. Let us say, then, do you know of any other instances where anybody interested in the government was paid?

Mr. LISMAN. Not within my own experience. One does not know about other people's negotiations. They are generally carried on pretty quietly.

Senator JOHNSON. You had a shrewd suspicion about some of them?

Mr. LISMAN. I have a suspicion about some of them, but no knowledge.

The CHAIRMAN. Do you know Mr. Maginnis?

Mr. LISMAN. I believe I have met Mr. Maginnis once; but I would not say that I know him, really.

The CHAIRMAN. Do you know whether or not he received any commission whatever?

Mr. LISMAN. I understand he did get quite a substantial check.

The CHAIRMAN. You do not know how much?

Mr. LISMAN. I do not like to say, because I may be wrong. I have a figure in my mind, but I am not certain of it. I have the figure of \$60,000 in my mind.

The CHAIRMAN. It was testified here the other day that he had received \$40,000.

Mr. LISMAN. If that is the figure, I have no doubt that that is correct. I do not know it of my own knowledge.

Senator JOHNSON. Did Juan Leguia have any other occupation except that of son of the President?

Mr. LISMAN. That is a mild way of describing it, but I would say that is about it.

Senator JOHNSON. About all he had?

Mr. LISMAN. Yes.

Senator JOHNSON. Please put your mind back to Peru for a moment. Where money was used for contracts and the like in Peru did Juan Leguia butt in in the same fashion?

Mr. LISMAN. As I said a while ago, I do not know about other people's business. There were harbor contracts in Lima, and I have no doubt that there were other contracts. I have no knowledge of what happened, but my guess would be that he was in it; but I may be away off.

Senator JOHNSON. Did you follow up your loans at all to see what became of them, how the money was used?

Mr. LISMAN. J. and W. Seligman handled that business entirely, and the National City Bank had a branch in Lima or Callao. I think it was Lima. Therefore they are in much better position; and I understand they have had a representative down there right along.

Senator JOHNSON. The National City Bank was interested in the Peruvian loan?

Mr. LISMAN. In the second and third loans. There was a first loan of \$15,000,000, the tobacco loan; and then there was a \$50,000,000 and a \$35,000,000 refunding loan.

Senator JOHNSON. The two later ones I think the testimony shows they were interested in?

Mr. LISMAN. Correct.

Senator JOHNSON. When did you first learn that those sums of money had been paid Leguia and the rest of them?

Mr. LISMAN. I feel now that I knew that something was paid in 1927.

Senator JOHNSON. That is at the time the loan was consummated?

Mr. LISMAN. Or 1927. But I did not know the amount until I read this testimony a few days ago.

Senator JOHNSON. The amount you did not know until then?

Mr. LISMAN. No, sir.

Senator JOHNSON. You did know, however, before the loans were consummated, that something was to be paid to these individuals, did you not?

Mr. LISMAN. That was my understanding; yes, sir.

Senator JOHNSON. The original contract for payment was to Bolster, however?

Mr. LISMAN. Yes, sir.

Senator JOHNSON. And that forms the written agreement or letter that you have spoken of?

Mr. LISMAN. Yes.

Senator JOHNSON. Was there any other writing subsequently by which Maginnis or Juan Leguia or Salt were to be paid any part of the amount?

Mr. LISMAN. Not to my knowledge; but I would not know what letters J. & W. Seligman might be sending.

Senator JOHNSON. Salt was a representative of yours, entirely, was he not?

Mr. LISMAN. There was an agreement with Salt which was, to the best of my recollection, that he was to have a fixed salary and a reasonable percentage or profit or commission for any good business he brought to the firm. At that time we did not think of Peru. It might be anything. I know he was working on a paper-mill deal, which did not go through, and some other matters.

Senator JOHNSON. At any rate, in January, 1926, you sent him, did you not, to Peru?

Mr. LISMAN. It was in 1926. I do not know the date, Senator.

Senator JOHNSON. He was accompanied on that trip by Mr. Harold Bolster; is that correct?

Mr. LISMAN. My understanding is that Bolster took a trip to South America on the same boat, that they went down as far as Lima together, and that Bolster stayed there for a day or a day and a half when the boat was in port, and then went on.

Senator JOHNSON. Just exactly what were they to do in the matter of the negotiation of loans?

Mr. LISMAN. My recollection is quite vague. A great many things have happened since. But if there was good business in Peru—legitimate, proper business—he was to attempt to secure it. It was quite vague. This matter of Government loans developed in the course of time.

Senator JOHNSON. Were there others who were competing with you for the loan there?

Mr. LISMAN. We understood there were several banking houses there.

Senator JOHNSON. All of them trying to get the loan from the Peruvian Government?

Mr. LISMAN. As usual.

Senator JOHNSON. That is so all over Latin America?

Mr. LISMAN. It was so during the period from 1925 to 1928, all over, I would say.

Senator JOHNSON. Seeking in every way to obtain such loans as you could for flotation here?

Mr. LISMAN. To satisfy the public demand for securities.

Senator JOHNSON. To satisfy the public demand for securities?

Mr. LISMAN. Yes.

Senator JOHNSON. That was the sole purpose?

Mr. LISMAN. Well, bankers do not knowingly float bad loans. But the purpose is to do a good business at a profit.

Senator JOHNSON. That is the main reason?

Mr. LISMAN. The first essence of business is legitimate profit.

Senator JOHNSON. Exactly; and the desire was to obtain loans or induce loans to be made and then float them here at a profit. That was pursued by all the houses, was it not?

Mr. LISMAN. Yes. I do not believe that there are many houses that would take up a piece of business that they did not think was good. They were all very keen to get business and bid against each other, and they had agents all over the world. I heard a good many amusing stories on that subject.

Senator JOHNSON. Do you know any Latin American instance where they bid against one another to get loans by the payment of commissions to specific individuals?

Mr. LISMAN. I do not know of any such occasion.

Senator JOHNSON. That is all.

Senator SHORTRIDGE. What was the amount which you ultimately paid to Mr. Salt?

Mr. LISMAN. My recollection is that we paid Mr. Salt \$50,000. But that was not all in connection with the Peruvian loan. That was in connection with a domestic transaction, two other domestic transactions. It was a general settlement.

Senator SHORTRIDGE. Who paid the money, a part of which went to the son of the president?

Mr. LISMAN. It was paid out of the syndicate. The J. & W. Seligman syndicate, to the best of my recollection, paid \$10,000 out of the amount we paid Salt in connection with the Peruvian matter.

Senator SHORTRIDGE. But the total amount that went to the payment of somebody down there in and about that loan—what was the total amount?

Mr. LISMAN. That went in down there?

Senator SHORTRIDGE. By way of commissions or contributions or inducement by any means.

Mr. LISMAN. To the best of my recollection, there was one-half per cent to Bolster and associates, and we subsequently found out that Juan Leguia was an associate.

Senator SHORTRIDGE. How much did that amount to?

Mr. LISMAN. On a total loan of \$100,000,000, \$500,000.

Senator SHORTRIDGE. And it was out of that sum do I understand that the son of the president received a certain amount?

Mr. LISMAN. Yes, sir. And then there was a check, according to Mr. Breck's testimony, of \$40,000 to Maginnis and a check of \$10,000 to Salt. I do not believe there were any other commissions; at least there were not any to my knowledge.

Senator SHORTRIDGE. That is all.

Mr. LISMAN. Senator Johnson, I would like to correct an error about which I think you will get a letter on from J. & W. Seligman & Co. in the course of the week.

Senator JOHNSON. Very well.

Mr. LISMAN. They said that the Costa Rican loan came to them subject to a charge from a man by the name of Alvarado. Alvarado was not our employee or our connection at all. Mr. Breck, I think, said he was not quite certain about it. Alvarado was some connection of some banking institution in New York. We merely called their attention to that particular business. We had certain negotiations and dropped it, but it was brought to their attention again. Alvarado, who I understand is a lawyer not connected with the government, got a certain commission out of it which, according to my understanding, together with the cable expenses, amounted to about one-half per cent.

Senator JOHNSON. That is all.

The CHAIRMAN. The witness may be excused.

(Witness excused.)

The CHAIRMAN. The committee will stand adjourned until 10 o'clock to-morrow morning.

(Whereupon, at 4.10 o'clock p. m., the committee adjourned until to-morrow, Wednesday, January 13, 1932, at 10 o'clock a. m.)

# SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

WEDNESDAY, JANUARY 13, 1932

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on yesterday, January 12, 1932, in the committee room in the Senate Office Building.

Present: Senator Thomas, of Idaho.

Present also: Senator Johnson.

Senator JOHNSON. Mr. Chairman, I am advised this morning that Senator Smoot is unable to be here, and inasmuch as Senator Smoot has been present at every session of this committee, has been exceedingly assiduous in his attendance here, and is familiar with what has transpired; and inasmuch as I was handed last evening a mass of documents which it has been utterly impossible, with the time at my disposition, to examine, and inasmuch as this morning the National City Bank very kindly, in response to my request, handed me another mass even greater, that I have not had the opportunity to look at, I am going to ask that this investigation be continued until to-morrow morning at 10 o'clock.

Senator THOMAS, of Idaho. Very well. Your request will be granted, Senator Johnson.

(Whereupon the committee adjourned until to-morrow, Thursday, January 14, 1932, at 10 o'clock a. m.)

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# SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

THURSDAY, JANUARY 14, 1932

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on yesterday, January 13, 1932, in the committee hearing room in the Senate Office Building.

Present: Senators Smoot (chairman), Shortridge, Jones, King, George, Walsh of Massachusetts, and Costigan.

Present also: Senator Johnson.

The CHAIRMAN. The committee will come to order and we will proceed with the hearing.

Senator JOHNSON. I offer for the purposes of the record and that we may have a form, at least, of one kind of agreement, the agreement of the Republic of Chile and Kissel, Kinnicutt & Co. and Hallgarten & Co.

Senator SHORTRIDGE. Who are Kissel, Kinnicutt & Co.?

Senator JOHNSON. They were bond and security salesmen of the like character we have had before us; and Hallgarten & Co. have appeared before us. This agreement is designated a fiscal-agency agreement, dated October 18, 1926. I put the entire agreement in the record, with the permission of the committee, and call attention to the twenty-second paragraph thereof, which is as follows:

As compensation for their services hereunder, the fiscal agents shall receive from the Republic one-eighth of 1 per cent of all amounts paid on account of interest on bonds, and one-eighth of 1 per cent on the face amount of all bonds redeemed for the sinking fund or otherwise retired or paid. The fiscal agents shall be entitled also to receive the usual brokerage commission on all bonds purchased by them for account of the Republic for surrender to the sinking fund or otherwise.

Also the twenty-third paragraph:

The Republic shall pay the usual charges for registering, the expenses in connection with the redemption of bonds, including publication of notice, and all other expenses incurred by the fiscal agents in good faith in connection with their agency. Such payments shall be made with interest at 5 per cent upon the rendering of an account in reasonable detail to the Republic. Any such account shall be considered accepted by the Republic unless objection thereto be made by the Republic in writing and received by the fiscal agents within 90 days from the mailing of the account in question.

Senator KING. What was the amount of the loan, if you recall?

Senator JOHNSON. I am sorry, but I can not tell you at the moment. I will get it for you.

Senator KING. It is unnecessary. I will examine the record.

Senator JOHNSON. I would like to ask, if you please, Mr. Chairman, that Mr. Matthews be called.

(The fiscal-agency agreement referred to and submitted by Senator Johnson, dated October 18, 1926, is here printed in full, as follows:)

**FISCAL AGENCY AGREEMENT OF THE REPUBLIC OF CHILE AND KISSEL, KINNICUTT & Co. AND HALLGARTEN & Co., DATED OCTOBER 18, 1926**

Agreement, dated October 18, 1926, made in the city of New York, United States of America, between Republic of Chile (hereinafter called the Republic) represented by its ambassador to the United States of America, Don Miguel Cruchaga Tocornal thereunto duly authorized by a decree of the President of the said Republic dated the 14th day of October, 1926, and pursuant to the authority vested in the said President, party of the first part, and Kissel, Kinnicutt & Co. and Hallgarten & Co., each a partnership having a principal office in the city of New York, United States of America (together hereinafter called the bankers), parties of the second part.

In consideration of the mutual promises herein contained, the parties hereto agree as follows:

**ARTICLE 1.—AUTHORIZATION AND PURPOSE OF BOND ISSUE**

First. The Republic makes the following representations and agreements:

1. Under the following laws of the Republic, No. 3835, promulgated January 23, 1922, No. 3849, promulgated February 21, 1922, and No. 4087, promulgated September 16, 1926, the President of the Republic is validly authorized to cause to be issued bonds of the Republic (in addition to any such bonds heretofore issued in pursuance of said laws or any of them) of the aggregate face amount of not less than \$42,500,000 in gold coin of the United States of America or its equivalent in English pounds sterling at \$4.8665 per pound and upon the terms and conditions contemplated in this agreement (the bonds so contemplated being herein referred to as the bonds).

2. The President of the Republic is duly authorized to issue and sell bonds for a sum less than the face amount and interest accrued to the date of payment therefor and upon such other terms and conditions not inconsistent with said laws as he deems convenient; and he has authority to delegate to the said ambassador the execution of this and other necessary agreements in connection with the issue of the said bonds.

3. Upon the execution of this agreement on behalf of the Republic by said ambassador the same will be the valid and legally binding obligation of the Republic, without any necessity for further action or approval by any other Chilean authority; and the bonds (and the coupons thereto attached) when issued under this agreement will be the valid and legally binding obligations of the Republic according to the terms of said bonds and coupons and of this agreement.

4. The proceeds of the bonds will be used by the Republic for the purposes set forth in said laws; and the fiscal agents shall be under no obligation or duty whatsoever to the bondholders in respect of the application by the Republic of the proceeds of the bonds.

**ARTICLE 2.—THE BONDS**

Second. The bonds shall be known as Republic of Chile 6 per cent external sinking fund gold bonds; shall be dated October 1, 1926; shall mature April 1, 1960; and shall bear interest at 6 per cent per annum payable semiannually. The aggregate principal amount of said bonds shall be \$42,500,000 in gold coin of the United States of America or, at the option of the holder, its equivalent in English pounds sterling at \$4.8665 per pound. For the amortization of the bonds, the Republic will provide a cumulative sinking fund of 1 per cent per annum payable in semiannual installments beginning March 15, 1927, each equal to one-half of 1 per cent of said maximum total amount of the bonds plus a sum equal to six months' interest on all bonds redeemed or otherwise retired, which sinking fund payments shall be applied to the redemption of said bonds as hereinafter provided. All bonds not previously redeemed or retired through operation of the sinking fund shall be due and payable on April 1, 1960. Bonds purchased by the Republic at prices not exceeding their face

value and accrued interest may be surrendered to the sinking fund in lieu of cash as hereinafter provided. The Republic, at its option, may increase the amount of any sinking fund payment.

Third: All payments of interest and principal including principal of bonds called for the sinking fund shall be made in gold coin of the United States of America of or equal to the standard of weight and fineness existing on October 1, 1926, or, at the option of the holder in English pounds sterling at the rate of \$4.8665 per pound sterling. All payments of principal and interest shall be made at the offices of the fiscal agents in the United States of America or in the case of sterling payments at the offices in Great Britain of J. Henry Schroder & Co., subfiscal agents.

Fourth: The bonds shall constitute the direct external obligation of the Republic, and the Republic hereby pledges its full faith and credit for the due and punctual payment of principal and interest and of all amounts required for the service of the loan, in time of war as well as in time of peace, irrespective of the nationality of any holder of the bonds, and for due performance by the Republic of all its obligations set forth herein and in the bonds.

Fifth: Principal, interest, and sinking fund shall be paid by the Republic without deduction for any taxes or imposts of whatsoever nature now or hereafter levied by the Republic or any political subdivision thereof or other Chilean authority, and the Republic agrees to assume any such taxes which may be imposed upon the bonds or the owners thereof on account of such ownership.

Sixth: If after October 1, 1926, any debt, external or internal of the Republic, now or hereafter existing, shall be or become secured by specific lien or charge upon any of its present or future assets or revenues, these bonds shall share in such lien or charge equally and ratably with such other debt and the Republic will take such action as may be requisite to give effect hereto.

#### ARTICLE III.—FORMAL PROVISIONS CONCERNING BONDS

Seventh: The bonds shall be in denominations of \$1,000 and \$500 and their respective equivalents in English pounds sterling at the rate of \$4.8665 per pound, in such proportions and numbered in such manner as the fiscal agents may determine.

Eighth: The bonds shall be bearer coupon bonds, registerable as to principal only, at such agency or agencies as the fiscal agents from time to time designate, at which the Republic shall maintain books for the registration and transfer of the bonds. Every bond shall be transferable by delivery, unless registered as to principal in the name of the owner upon the registration books. After such registration, no transfer shall be valid unless made on said books by the registered owner, in person or by attorney duly authorized in writing, and similarly noted on the bond; but any bond may be discharged from registration by being in like manner transferred to bearer, and thereupon shall become transferable by delivery; and such bond may again, from time to time, be registered or transferred to bearer as before. Such registration shall not affect the negotiability of the coupons, and every coupon shall continue to be transferable by delivery only, and shall remain payable to bearer, and payment thereof to bearer shall fully discharge the Republic and the fiscal agents in respect of the interest therein mentioned, whether the bonds to which such coupon appertains be registered or not. As to every bond registered as to principal, the person in whose name the same is registered shall for all purposes (except the payment of interest represented by the coupons) be deemed the owner thereof, and payment of or on account of the principal shall be made only to or upon the order of such registered holder. The Republic and the fiscal agents may treat the bearer of any bond not registered, and the bearer of any coupon for interest on any bond, whether such bond be registered or not, as the absolute owner of such bond or of such coupon for the purpose of receiving payment thereof and for all other purposes, any notice to the contrary notwithstanding.

Ninth: In case any bond or coupon shall be mutilated, destroyed, lost, or stolen, the Republic shall issue, and the fiscal agents shall cause to be authenticated and delivered, a new bond or coupon of like tenor and denomination, in exchange and substitution for and upon surrender and cancellation of such mutilated bond (with its coupons, if any), or coupon, or in lieu of and substitution for the bond (with its coupons, if any), or coupon, so destroyed, lost, or stolen. The applicant for such substituted bond or coupon shall furnish evidence of the destruction, loss, or theft of the bond (with its coupons, if any),

or coupon, so destroyed, lost, or stolen, and indemnity; satisfactory in each case to the fiscal agents.

Tenth. The bonds shall be signed in the city of New York. They shall bear the facsimile signature of the Chilean ambassador in Washington and the manual countersignature of the consul general of Chile in the United States of America, and shall also be sealed with the seal of the Chilean Republic. The coupons shall also bear the facsimile signature of said ambassador. No bond shall be valid for any purpose unless the same shall first be authenticated by a certificate indorsed thereon by the fiscal agents, or some financial institution selected by them; and such authentication shall be conclusive evidence, and the only evidence, that the bond so authenticated has been duly issued hereunder. The fiscal agents are hereby instructed by the Republic to authenticate, or cause to be authenticated, \$42,500,000 principal amount of bonds, and to deliver the same in accordance with instructions from the Republic.

Eleventh. The text of the bonds and coupons shall be in English and shall be in the form customary in the city of New York. In accordance with the custom of the New York Stock Exchange the bonds shall contain a provision whereby the Republic certifies and declares that all acts, conditions, and things required to be done and performed and to have happened precedent to and in the creation of the loan and the issue of the bonds thereof, have been done and performed and have happened in due and strict compliance with the constitution and laws of the Republic.

Twelfth. The definite bonds shall be engraved in New York in such form as to comply with the requirements of the New York Stock Exchange. Pending the engraving and execution of definitive bonds, the Republic shall execute and deliver to the fiscal agents for authentication temporary printed bonds, in such denominations as the fiscal agents may request, and substantially of the tenor of the bonds herein described, but without coupons or with not more than one coupon, and with such omissions, insertions, and variations as the fiscal agents may approve. If the temporary bonds are issued without coupons, payment of interest shall be made only upon presentation of each temporary bond for notation of each such payment thereon. The temporary bonds may but need not bear the engraved facsimile signature above mentioned, or the seal of the Republic, and the coupons, if any, shall bear the facsimile signature of said Chilean ambassador, or some other duly authorized representative of the Republic. The form of the temporary and definitive bonds shall in all respects comply with the regulations of the New York Stock Exchange. Subject to such regulations as the fiscal agents may prescribe, temporary bonds shall be exchangeable, without cost to the holder, upon surrender and cancellation for the same aggregate principal amount of definitive bonds. The Republic will cause definitive bonds to be prepared, executed, and delivered to the fiscal agents as promptly as possible for the purpose of making such exchanges. The fiscal agents shall have charge, on behalf of the Republic, of all matters in regard to the preparation of the temporary and definitive bonds.

#### ARTICLE IV—SERVICES OF THE LOAN

Thirteenth. The amount required for the semiannual service of the loan represented by the \$42,500,000 principal amount of bonds to be issued hereunder, exclusive of the sums payable by the Republic to the fiscal agents for their compensation and expenses, consists in each case of a uniform amount of \$1,487,500 comprising:

(a) The semiannual sinking-fund payment, consisting of the amount of \$212,500, being one-half of 1 per cent of the total amount of the loan plus an amount equal to six months' interest on all bonds redeemed or otherwise retired through the operation of the sinking fund prior to the next semiannual interest date; and

(b) The semiannual interest payment, consisting of an amount equal to six months' interest on all bonds not redeemed or otherwise retired prior to the next semiannual interest date.

Said semiannual sinking-fund payment is calculated to retire the entire issue of the bonds not later than maturity.

Fourteenth. Each such aggregate fixed sum necessary for the semiannual service of the loan shall be paid as follows:

(a) At least 15 days prior to each semiannual interest payment date the Republic shall pay the semiannual sinking-fund payment in gold coin of the United States of America to the fiscal agents at their offices in New York City,

or, if and to the extent that the fiscal agents shall previously request, in English pound sterling to the subfiscal agents at London. In lieu of making all or any part of any sinking-fund payment in cash, the Republic may deliver to the fiscal agents for surrender to the sinking fund any bonds, with all unmaturing coupons attached, purchased by the Republic at a price not exceeding par, exclusive of accrued interest and commissions, accompanied by certificates of the Republic stating at what prices such bonds were so purchased, and such bonds shall be accepted in lieu of cash in an amount equal to the purchase price (exclusive of accrued interest and commissions) plus the amount of the coupons due on said next interest date.

(b) At least 10 days prior to each semiannual interest payment date the Republic shall pay the semiannual interest payment in gold coin of the United States to the fiscal agents at their offices in New York City, or, if and to the extent that the fiscal agents shall previously request, in English pounds sterling to the subfiscal agents at London.

Fifteenth. Except as hereinafter provided, upon the receipt of each such semiannual sinking-fund payment, the fiscal agents shall apply that part of the same paid in cash to the redemption of bonds on the next semiannual interest payment date; provided, however, that if such moneys shall amount to less than \$5,000 such sum may be carried forward and added to the next sinking-fund payment. Such redemption shall be effected in the following manner: The particular bonds to be redeemed on each occasion shall be determined by lot by drawings conducted by the fiscal agents in New York at which a representative of the Republic may be present if the Republic so requests. Drawings shall be held not later than the twelfth day immediately preceding the next semiannual interest payment date. Notice of such redemption shall be published at least twice in one or more newspapers of general circulation in New York City, selected in each instance by the fiscal agents, and shall also be given and published in such manner, either in New York or elsewhere, as the fiscal agents may prescribe. The first publication shall be made at least 10 days immediately preceding the next semiannual interest payment date. Such notice shall state the numbers of the bonds to be redeemed (unless all outstanding bonds are to be redeemed), the date (which shall be the next semiannual interest payment date) and the places in New York City and London (which shall be designated by the fiscal agents) for surrender and payment. On the date and at the place so specified, the holder of each bond thus called for redemption shall surrender the same, with all coupons maturing after such date. Upon such surrender the fiscal agents or the London subfiscal agents shall cause to be paid to the holder of each such bond, out of the funds provided for that purpose by the Republic, the principal amount of such bond. Any bond thus called for redemption and not so surrendered shall cease to bear interest after said redemption date, and all coupons for subsequent interest shall be void.

Sixteenth. All bonds tendered for or redeemed by the sinking fund, and the coupons thereto appertaining, shall be canceled and returned to the Republic, and no bonds shall be issued in lieu thereof.

Seventeenth. The Republic, at its option, may increase the amount of any semiannual sinking-fund payment. In that event it shall notify the fiscal agents at least 60 days prior to the next succeeding interest date, specifying the amount by which such semiannual sinking-fund payment is to be increased, and shall pay the entire sinking-fund payment as so increased at least 30 days prior to such interest date.

Whenever any semiannual sinking-fund payment, whether increased or not, is made wholly or partly in cash to the fiscal agents prior to the fifteenth day preceding the next semiannual interest payment date, the Republic may instruct them to apply such cash at any time prior to the fifteenth day preceding the next semiannual interest payment date to the purchase of bonds for the account of the Republic at the lowest prices obtainable in the judgment of the fiscal agents not exceeding principal amount exclusive of accrued interest. All bonds so purchased shall be surrendered and credited to the sinking fund as hereinbefore provided. Any such cash remaining unexpended in the hands of the fiscal agents on the fifteenth day preceding the next semiannual interest payment date shall be applied to the redemption of bonds for the sinking fund as above provided. The bonds shall not be redeemable except through the sinking fund.

Eighteenth. Nothing in this agreement contained shall be construed to impose any obligation on the fiscal agents or the London subfiscal agents to redeem

any bonds or to make any payments of principal or interest or otherwise with respect to the bonds or the interest coupons except out of funds previously received from the Republic for such purpose.

Nineteenth. With each semiannual sinking-fund and/or interest payment the Republic shall pay, in United States of America gold coin, to the fiscal agents in New York City a sum sufficient to pay the compensation payable to the fiscal agents with respect thereto.

#### ARTICLE 5.—THE FISCAL AGENTS

Twentieth. The Republic hereby appoints Kissel, Kinnicutt & Co. and Hallgarten & Co., and their respective successors in business (subject to the approval by the Republic of such successors), the fiscal agents for all purposes relating to the bonds and the service of the loan represented thereby; and said firms hereby accept such fiscal agency, subject to the provisions of this agreement. Such appointment shall continue while any of the bonds remain outstanding unless sooner terminated as hereinafter provided.

Twenty-first. The Republic hereby consents that the fiscal agents may represent the holders of the bonds in all matters, but this provision shall not impose any trust or duty in favor of the bondholders upon the fiscal agents or either of them.

Twenty-second. As compensation for their services hereunder, the fiscal agents shall receive from the Republic one-eighth of 1 per cent of all amounts paid on account of interest on bonds, and one-eighth of 1 per cent on the face amount of all bonds redeemed for the sinking fund or otherwise retired or paid. The fiscal agents shall be entitled also to receive the usual brokerage commission on all bonds purchased by them for account of the Republic for surrender to the sinking fund or otherwise.

Twenty-third. The Republic shall pay the usual charges for registering the expenses in connection with the redemption of bonds, including publication of notice, and all other expenses incurred by the fiscal agents in good faith in connection with their agency. Such payments shall be made with interest at 5 per cent upon the rendering of an account in reasonable detail to the Republic. Any such account shall be considered accepted by the Republic unless objection thereto be made by the Republic in writing and received by the fiscal agents within 90 days from the mailing of the account in question.

Twenty-fourth. The Republic may pay any service moneys payable to the fiscal agents in pursuance of this agreement, to the fiscal agents jointly, or to either of them. The fiscal agents and the London subfiscal agents may arrange between themselves as to the proportions in which such moneys or any other sums shall be held on deposit by them respectively for the account of the Republic.

Twenty-fifth. The Republic shall at all times indemnify and protect each of the fiscal agents and the London subfiscal agents against all claims, demands and actions which may be instituted in behalf of any bondholder, whether in respect of moneys at any time in the hands of the fiscal agents or otherwise, subject only to the responsibility expressed in paragraph 26 hereof.

Twenty-sixth. Each of the fiscal agents and the London subfiscal agents shall be answerable to the Republic or to the bondholders only for its own failure to exercise good faith or for gross negligence. Neither of the fiscal agents nor the London subfiscal agents shall be responsible to the Republic or to the bondholders for any sums paid to or deposited with others nor for the act or omission of others. The fiscal agents, or either of them, or the London subfiscal agents, may consult counsel in regard to their duties under this agreement, and shall be fully protected in relying and acting upon the advice of counsel of recognized standing selected by them or any of them.

Twenty-seventh. The fiscal agents may designate any financial institutions of good standing in the city of New York or elsewhere as the registrars of the bonds. The fiscal agents may appoint financial institutions to authenticate the bonds as hereinbefore provided as agents for both of them, or each of them may appoint agents to act in its own behalf for such purpose. In both cases the fiscal agents shall submit such appointments for the approval of the Republic.

Twenty-eighth. The fiscal agents may appoint (on their own responsibility, unless such appointment be approved by the Republic) one or more additional subfiscal agents in the United States of America or Europe as paying agents for the principal and interest of the bonds and with whom the fiscal

agents may deposit funds of the Republic designated for the payment of principal or interest on the bonds and whose names may appear on the bonds and coupons; it being understood that payments other than in United States of America dollars or pounds sterling made at the offices of such subfiscal agents other than those in the United States of America or Great Britain shall be made in any other currency only at the then current buying rate for dollars or sterling. The fiscal agents and subfiscal agents may make such arrangements between themselves as they may deem appropriate for the interchange of funds and for the drawing by one fiscal agent or subfiscal agent against funds of the Republic held by another fiscal agent or subfiscal agent and in general for facilitating the payment of bonds and coupons which may be presented to any of them. The Republic shall be credited or debited as the case may be with any net profit or net loss or cost which may result from the conversion of dollars to pounds or pounds to dollars in connection with the remittance or exchange of funds necessary for service payments. The compensation of all subfiscal agents shall be paid by the fiscal agents.

Twenty-ninth. Either of the fiscal agents or the London subfiscal agents may act in reliance upon any instructions or advices, received by cable or otherwise as purporting to come from the Minister of Finance of the Republic or from the Chilean Ambassador in the United States of America, or from the Chilean Minister in Great Britain, or in default of these, from the chargé d'affaires in either country, and shall incur no responsibility by so doing.

Thirtieth. Either of the fiscal agents or the London subfiscal agents may at any time resign from the agency by giving notice of such intention to the Republic, specifying the date on which such resignation shall become effective, provided that such notice shall not be less than 30 days, unless the Republic agrees to accept less notice. Upon the resignation or failure to act from any cause of either of the fiscal agents hereunder, the remaining fiscal agent shall act as sole fiscal agent and may exercise all powers of the fiscal agents. Upon the resignation or failure to act from any cause, of both of the fiscal agents, the financial institution which shall theretofore have been designated for the registration of bonds in the city of New York shall act as sole fiscal agent. In the event that at any time there shall be no fiscal agent in office, the Republic shall provide at least one fiscal agent in the city of New York to attend to the services of the loan. Upon the resignation or failure to act of the London subfiscal agents the fiscal agents may, with the consent of the Republic, appoint their successors.

Thirty-first. Neither of the fiscal agents nor the London subfiscal agents shall incur any liability whatsoever to the Republic or to the bondholders or to anyone else in acting in reliance upon any bond, coupon, or other instrument believed to be genuine.

Thirty-second. All moneys received by either of the fiscal agents for the service of the loan may be held until paid out in accordance with the terms of this agreement, as a general deposit, and the fiscal agents agree to pay interest at a rate of 2 per cent below the discount rate fixed by the New York Federal Reserve Bank.

Thirty-third. Either of the fiscal agents or the London subfiscal agents may purchase or otherwise deal in any of the bonds, with the same rights as though not acting as such.

#### ARTICLE VI.—MISCELLANEOUS PROVISIONS

Thirtyfourth. Any notices, requests, or instructions, or orders for the payment of money or the delivery of securities which may be required to be given by one party to the other, shall be deemed sufficient (unless herein otherwise expressly provided), if given in writing in English as follows:

(a) If from the fiscal agents to the Republic, over the signature of either of the fiscal agents by any member of the firm, delivered to the Chilean Ambassador in Washington, or by cable addressed to the Minister of the Treasury of the Republic, provided that a copy of such cable is delivered on the day it is sent or on the following business day at the Chilean Embassy in Washington.

(b) If from the Republic to the fiscal agents, then by delivery at the office of either of the fiscal agents in New York either over the signature of the Chilean Ambassador in Washington, or by cable addressed to either of the fiscal agents at its office in the city of New York by any duly authorized official of the Republic and confirmed in writing to the fiscal agents by the Chilean Ambassador in Washington.

Thirty-fifth. In case the Republic should be unable to make the payments herein contemplated in New York City, on account of a state of war or otherwise, the Republic shall deposit all such payments in a bank designated by the fiscal agents in any neutral country.

Thirty-sixth. At the request of the fiscal agents, made at any time, the Republic will furnish all information and sign all applications and other documents necessary or suitable for procuring the listing of the bonds upon the New York Stock Exchange and/or any other like institution.

Thirty-seventh. In compliance with any reasonable request made by the fiscal agents at any time, the Republic will furnish them with all information in regard to its revenues, expenses, financial affairs, and general condition.

Thirty-eighth. This agreement shall inure to the benefit of and be binding on the Republic on the one hand and on the other hand Kissel, Kinnicutt & Co. and Hallgarten & Co. and their respective successors in business as fiscal agents of the bonds.

In witness whereof, the above-mentioned parties have executed this agreement in triplicate in the manner hereinabove recited.

REPUBLIC OF CHILE,  
By MIGUEL CRUCHAGA TOCORNAL,  
*Ambassador of the Republic of Chile to the United States of America.*

KISSEL, KINNICUTT & Co.,  
By WILLIAM FERGUSON,  
*A General Partner.*

HALLGARTEN & Co.,  
By MAX HORWITZ,  
*A General Partner.*

STATE OF NEW YORK,  
*County of New York, ss:*

On the 18th day of October, 1926, before me personally appeared Miguel Cruchaga Tocornal, to me known and known to me to be the person who is described in and who executed the foregoing instrument as ambassador of the Republic of Chile to the United States of America, and he acknowledged to me that he executed the same as such ambassador, thereunto duly authorized on behalf of said Republic of Chile, as its act and deed.

[SEAL.]

LAURENCE ALDEN CROSBY,  
*Notary Public, Westchester County.*

Certificate filed in New York County. New York County clerk's No. 478, registration No. 8364. Commission expires March 30, 1928.

STATE OF NEW YORK,  
*County of New York, ss:*

On this 18th day of October, 1926, before me personally appeared William Ferguson, to me known to be a member of the firm of Kissel, Kinnicutt & Co., and the person described in and who executed the foregoing instrument in the firm name of Kissel, Kinnicutt & Co., and acknowledged that he executed the same as the act and deed of said firm of Kissel, Kinnicutt & Co.

[SEAL.]

LAURENCE ALDEN CROSBY,  
*Notary Public, Westchester County.*

Certificate filed in New York County. New York County clerk's No. 478, registration No. 8364. Commission expires March 30, 1928.

STATE OF NEW YORK,  
*County of New York, ss:*

On this 18th day of October, 1926, before me personally appeared Max Horwitz, to me known to be a member of the firm of Hallgarten & Co., and the person described in and who executed the foregoing instrument in the firm name of Hallgarten & Co., and acknowledged that he executed the same as the act and deed of said firm of Hallgarten & Co.

[SEAL.]

LAURENCE ALDEN CROSBY,  
*Notary Public, Westchester County.*

Certificate filed in New York County. New York County clerk's No. 478, registration No. 8364. Commission expires March 30, 1928.

**TESTIMONY OF H. FREEMAN MATTHEWS, ASSISTANT CHIEF OF THE DIVISION OF LATIN AMERICAN AFFAIRS, STATE DEPARTMENT, WASHINGTON, D. C.**

(The witness was duly sworn by the chairman of the committee.)

The CHAIRMAN. Whom do you represent?

Mr. MATTHEWS. The State Department, sir.

The CHAIRMAN. How long have you been with the State Department?

Mr. MATTHEWS. I entered the Foreign Service in the beginning of 1924. My immediate assignment to the State Department began on April 4, 1930, I believe.

The CHAIRMAN. What is the immediate work that you are required to do?

Mr. MATTHEWS. I am Assistant Chief of the Division of Latin American Affairs.

The CHAIRMAN. And have been so for how many years?

Mr. MATTHEWS. Since, I believe, November 1, 1930. I came into the division before that, but I have been assistant chief only since that date.

Senator JOHNSON. How long have you been in the division, if you please?

Mr. MATTHEWS. Since April 4, 1930.

Senator JOHNSON. Then you have occupied your present position since November, 1930?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. You have been connected with the State Department for how long a period?

Mr. MATTHEWS. Since the beginning of 1924.

Senator JOHNSON. Have you devoted yourself to Latin American affairs during that period?

Mr. MATTHEWS. During a part of the period. I was secretary of legation in Bogota, Colombia, from January, 1927, until January, 1930, three years, sir.

Senator JOHNSON. Three years you were secretary to the legation at Bogota?

Mr. MATTHEWS. Yes, Senator. Prior to that I was in Budapest, Hungary.

Senator JOHNSON. Who was the minister to Colombia during that period?

Mr. MATTHEWS. The Hon. Samuel H. Piles was minister during a part of that period. During the last year, the Hon. Jefferson Caffery was minister.

Senator JOHNSON. Mr. Caffery is at present in this country, is he not?

Mr. MATTHEWS. He is in New York.

Senator JOHNSON. And he can respond to a call of this committee at any time, can he not?

Mr. MATTHEWS. Yes; as far as I know, sir.

Senator JOHNSON. Have you the report of the congressional committee of Chile?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Has Mr. White the report there, who sits by you?

Mr. MATTHEWS. I think Doctor Livesey has the report.

Doctor LIVESEY. I have a report which will probably need a few comments for purposes of identification as to whether it is what you desire or not.

Senator JOHNSON. What date is that report, please?

Doctor LIVESEY. The copy I have was published in the Chile press November 8, 1931.

Senator JOHNSON. Does that deal with the Cosach Concession?

Doctor LIVESEY. Yes.

Senator JOHNSON. Is it a report that gives all of the proceedings in regard to the Cosach Concession?

Doctor LIVESEY. It is entitled "Report of the organization of the Compania de Salitre de Chile (Cosach) presented by the subcommittee of the committee investigating the acts of the dictatorship." There has been a more recent report by another committee, I believe, which was reported in the New York Times of December 16, 1931; but this is a substantial report dealing with the matter; and I may say that the peroration—

Senator SHORTRIDGE. The what?

Doctor LIVESEY. The summary, the peroration, the last few paragraphs, state:

This commission, conscious of its rôle of prosecutor in the investigation of the acts of the dictatorship—

So this is really an attack such as a government body might make, a critical review of the proceedings leading up to the establishment of the company.

Senator COSTIGAN. May I ask the date of the report?

Doctor LIVESEY. The report itself is dated November 5, 1931.

Senator JOHNSON. Will you hand that report to us, if you please?

Doctor LIVESEY. Senator, may I also hand in at the same time, for whatever purposes you may wish, a statement made by the Cosach while this meeting was in session, which also contains a great deal of information on the subject.

Senator JOHNSON. You may hand it in for such purposes as you wish, not for such purposes as I wish.

Doctor LIVESEY. I, of course, do not know for what purpose you desire it.

Senator JOHNSON. If you desire it to be presented here.

The Cosach was the particular combination that had received the nitrate concession in Chile—

Senator SHORTRIDGE. Let the gentleman be sworn, I would suggest, Senator.

Senator JOHNSON. Quite so; but I was asking for the report, and I permitted, of course, as I do with any witness, any statement that he desires to make; that is all.

Senator KING. Do you intend calling him later?

Senator JOHNSON. Yes; but I wanted to get this report in order that I might have an opportunity to see it in such brief period as I may have.

Senator KING. Why not have him hand you the report and then put him on the stand later if he has any explanation to make?

Senator JOHNSON. That is what I am doing.

(Having been handed the report referred to) Thank you, sir. We will have that report here, and I will have an opportunity, perhaps, at noontime to examine it for about six minutes.

Do you know anything about the loans that were floated in this country, of Chile?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Or Bolivia?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Peru?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Nothing at all?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Did you make any investigation at any time in reference to them?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Do you know anything about the loans that were floated in Panama?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Do you know anything about the Italian loans?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Of none of those that I have mentioned that are in Latin America have you made any investigation at all?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Just exactly what is your jurisdiction in the State Department, in the Latin American division?

Mr. MATTHEWS. I handle matters that come through the division pertaining to Colombia and to Cuba, and I have at times reviewed general incoming correspondence and have prepared various morning summaries of Latin American news.

Senator JOHNSON. For how long a period have you prepared your summaries of Latin American news?

Mr. MATTHEWS. Just for a few months, sir. I do not recall the exact dates.

Senator JOHNSON. Just exactly what was your position before November, 1930, when you were transferred to your present position?

Mr. MATTHEWS. I was one of the officers in the Latin American division.

Senator JOHNSON. As one of the officers were you familiar with the various countries of Latin America and what they were doing?

Mr. MATTHEWS. Only to a very general extent, sir.

Senator JOHNSON. Did that general extent give you some familiarity with the loans of Chile, Bolivia, Peru, Panama, and the like?

Mr. MATTHEWS. I made no study of it, sir.

Senator JOHNSON. Did you know anything about them at all?

Mr. MATTHEWS. No, sir. I knew they had been floated, and I recall the Peruvian loan going into default, and the Chilean loan. I made no study of it.

Senator JOHNSON. You recall that there were loans made in Chile, that there were loans made in Bolivia, and that there were loans made in Peru, do you not?

Mr. MATTHEWS. Yes, sir; I knew they were made. They were made before I came into the division.

Senator JOHNSON. You recall that they went into default, do you?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Did you make any investigation whatsoever as to the reasons for the default?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Did you file any memoranda at any time with respect to any of these loans?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. What is your custom in respect to matters of this sort that may be intrusted to you? Do you make memoranda regarding them?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Are the memoranda preserved by the Department of State?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. So that any memoranda you may have made in respect to any loans of Chile, Peru, Bolivia, Panama, or any other countries would be preserved in the Department of State?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And those memoranda are accessible?

Mr. MATTHEWS. I do not understand you, Senator.

Senator JOHNSON. I mean by that they are there now and could be obtained readily if desired and if desired to be produced by the Secretary of State?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. You have an intimate connection with the loan that was made to Colombia?

Mr. MATTHEWS. Not an intimate connection, sir. I was familiar with its origin.

Senator JOHNSON. And you knew who made the loan, of course?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. The National City Bank was indulging in the loan as to short-time credits?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Were there other loans made besides that of the National City Bank, of short-time credits?

Mr. MATTHEWS. Not that I know of, sir.

Senator JOHNSON. Are there any other loans in Colombia that you are familiar with or know anything about save that of the National City Bank?

Mr. MATTHEWS. I am somewhat familiar with the Hallgarten loans of 1927 and 1928.

Senator JOHNSON. They were made to what?

Mr. MATTHEWS. They were made to the national government of Colombia. They were bond issues floated here.

Senator JOHNSON. Do you know whether or not any loans made either by States of Colombia or Colombia itself have been defaulted?

Mr. MATTHEWS. Yes, sir. Not of States; but a loan by the city of Medellin has gone into default, due to the fact that because of certain restrictions imposed by the national government on the export of gold they have not been able to remit the dollar exchange to the United States.

Senator JOHNSON. How much was that loan, please?

Mr. MATTHEWS. There were two issues, totaling \$12,000,000, Senator.

Senator KING. Dollars or pesos?

Mr. MATTHEWS. Dollars, Senator.

The CHAIRMAN. Were they able to remit if there had not been an embargo on gold?

Mr. MATTHEWS. It is my understanding that they have actually deposited the amounts in the Central Bank.

Senator JOHNSON. But they have not been remitted?

Mr. MATTHEWS. No, sir. The exchange control committee which was set up by the national government has declined to permit them to remit, Senator, in order to protect the country's gold reserves.

Senator JOHNSON. Those loans were sold to the American public, were they not?

Mr. MATTHEWS. Yes, Senator; the first issue of \$3,000,000 in 1926, the second issue of \$9,000,000 in 1928.

Senator JOHNSON. Any other subdivision in Colombia that issued loans are in a similar condition?

Mr. MATTHEWS. As far as I know, those are the only two that have actually gone into default as far as the bondholders are concerned. The exchange control committee has announced that it will not permit other departmental or municipal government to remit either, unless the exchange situation improves so that they can do it.

Senator JOHNSON. Will you state what other loans have been made by Colombia, or departmental loans, as you term them, that are in the condition that you suggest?

Mr. MATTHEWS. That is, the condition of being unable to remit when the next coupon becomes due?

Senator JOHNSON. Yes.

Mr. MATTHEWS. I have a list of them here, sir. I can read them off.

Senator JOHNSON. Read them off to the reporter, please.

Mr. MATTHEWS. There were nine issues of the department of Antioquia—

Senator JOHNSON. Aggregating how much?

Mr. MATTHEWS. I would have to add them up, Senator. I can give you the specific amounts.

Senator JOHNSON. All right, if that is easier.

Mr. MATTHEWS. The first issue of 1925, \$3,000,000; 1926, \$6,000,000; 1926, \$3,000,000; 1927, \$2,500,000; 1928, \$3,750,000; 1929, \$1,750,000.

Senator JOHNSON. Nearly \$20,000,000, in round numbers.

Mr. MATTHEWS. 1927, \$4,000,000; 1927, \$4,000,000; 1928, \$4,350,000. That is all, sir.

Senator JOHNSON. Thirty-two million. So there were \$32,000,000 as to that particular Province?

Mr. MATTHEWS. That is, originally issued. It is not quite that much now.

Senator JOHNSON. How much is outstanding?

Mr. MATTHEWS. I can give you the figures outstanding on June 30, 1931.

Senator JOHNSON. The proportion, just approximately.

The CHAIRMAN. Give the total.

Mr. MATTHEWS. About \$29,000,000, I should say.

Senator JOHNSON. About \$29,000,000 outstanding?

Mr. MATTHEWS. Roughly. That is very rough, Senator.

Senator JOHNSON. How much was the total of the city of Medellin?

Mr. MATTHEWS. \$12,000,000 issued; now about \$11,000,000 outstanding.

Senator JOHNSON. Something over \$40,000,000?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. There are \$40,000,000 of loans outstanding from Colombia that have been sold in the United States of America to investors or to the general public, which face default?

Mr. MATTHEWS. Senator, that is not the total yet. Those are the loans for the Department of Antioquia and for the city of Medellin.

Senator JOHNSON. I am sorry there is more, but let us have it.

Mr. MATTHEWS. The Department of Caldas, \$6,000,000, \$4,000,000, and \$200,000.

Senator JOHNSON. That is \$50,000,000 we have reached, in round numbers. Any more?

Mr. MATTHEWS. The Department of Cundinamarca, \$12,000,000.

Senator JOHNSON. \$62,000,000, in round numbers.

Mr. MATTHEWS. The Department of Santander, \$2,000,000.

Senator JOHNSON. That is \$64,000,000.

Mr. MATTHEWS. The Department of Tolima, \$2,500,000.

Senator JOHNSON. We will call it \$66,000,000.

Mr. MATTHEWS. The Department of Valle del Cauca, \$2,500,000, plus \$1,500,000, plus \$4,500,000.

Senator JOHNSON. That is an aggregate substantially of \$75,000,000, now. Any others?

Mr. MATTHEWS. Those are all the Departments. There are other municipalities.

Senator JOHNSON. Without naming them, if you can state how much of the loans of the municipalities are outstanding that face default, please do so.

Mr. MATTHEWS. About \$23,000,000, including those Medellin loans.

Senator JOHNSON. We have somewhere around \$100,000,000 that has been floated, then, from Colombia in the United States of America to our people that face practical default now?

Mr. MATTHEWS. \$100,000,000 in departmental and municipal loans, Senator. There are various bank loans.

Senator JOHNSON. In addition?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Do they face the same situation?

Mr. MATTHEWS. The private bank loans, yes, sir. That is to say, private bank loans, because there is one bank which is government-controlled and it is not in the same position.

Senator SHORTRIDGE. I want to make this observation. Proceeding on the assumption that there will be defaults in all these cases will be of no benefit to the holders of those bonds. But proceed. I merely wanted to carry that thought in mind.

Mr. MATTHEWS. I believe that the Government is at present planning to issue a form of scrip to bondholders, interest-bearing scrip; and if conditions improve, they state they will permit the remittance of exchange.

Senator JOHNSON. Will you tell me the last dates of these various loans that are in that position?

Mr. MATTHEWS. There was one small loan of the city of Cali in 1930 in the amount of \$250,000. So far as I know, that is the last public flotation of any Colombian security.

Senator JOHNSON. All of the other loans that have been mentioned were loans made prior to 1930?

Mr. MATTHEWS. Yes, sir; and they were loans, as you suggest, of the various political subdivisions beginning probably with——

Senator JOHNSON. 1926?

Mr. MATTHEWS. I believe there was one in 1925, Senator.

Senator JOHNSON. 1925, 1926, 1927, and 1928?

Mr. MATTHEWS. There was one in 1924.

Senator JOHNSON. 1924, 1925, 1926, 1927, 1928?

Mr. MATTHEWS. And 1929.

Senator JOHNSON. All those loans were made about that period, as you have indicated?

Mr. MATTHEWS. Yes, sir.

The CHAIRMAN. Have you a list of the loans and the names?

Mr. MATTHEWS. Yes, Senator, in Spanish.

The CHAIRMAN. Can you translate that into English and have it put into the record?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Is the table that you have before you in Spanish?

Mr. MATTHEWS. Yes, Senator. Most of it is in figures, but the rest of it is in Spanish.

Senator JOHNSON. But perfectly understandable, is it not?

Mr. MATTHEWS. Yes, Senator.

The CHAIRMAN. I would like to have him translate it into English and put it into the record at this point.

Mr. MATTHEWS. Yes, sir.

Loans floated abroad up to June 30, 1931, and balances outstanding at that date <sup>1</sup>

A. LONG-TERM LOANS

Borrowers	Year of issue	Interest (per cent)	Term (years)	Initial dis-count (per cent)	Issues effected		Net proceeds, foreign currency	Balances outstanding at June 30, 1931		Value of annual service	Quota-tions on June 16
					Value in foreign currency	Value in Colombian currency		Foreign currency	Colombian currency		
<b>The nation:</b>											
<b>1. In pounds sterling--</b>											
Consolidated exterior loan.....	1896	3	-----	-----	£2,700,000	\$13,500,000	£2,700,000	£81,000	\$409,500.00	£301,125	71
Sabana Ry. loan.....	1906	5	-----	-----	£300,000	1,500,000	300,000	£94,440	472,200.00		95½
1911 loan.....	1911	6	-----	-----	£300,000	1,500,000	300,000	£130,280	651,400.00		94
Girardot Ry. loan.....	1913	6	-----	-----	£1,468,958	7,344,790	1,468,958	£835,058	4,175,290.00		87
Northern Ry. loan.....	1916	5	-----	-----	£80,000	400,000	80,000	£48,090	244,000.00		60
Puerto Wilches Ry. loan.....	1920	6	-----	-----	£428,580	2,142,000	428,580	£349,440	1,747,200.00		84
<b>2. In dollars--</b>											
Public works loans.....	1927	6	34	8.82	Drs. 25,000,000	25,875,000	Drs. 22,755,000	Drs. 23,509,500	24,425,482.50	Drs. 1,753,925.00	61
Do.....	1928	6	34	8.70	Drs. 35,000,000	36,225,000	31,898,000	Drs. 33,540,000	34,713,900.00	Drs. 2,459,125.00	61
<b>Departments:</b>											
Antioquia.....	1925	7	20	17	Drs. 3,000,000	3,105,000	2,470,000			Drs. 286,425.00	52
Do.....	1926	7	20	14.75	Drs. 6,000,000	6,210,000	5,115,000			Drs. 572,850.00	52
Do.....	1926	7	20	15	Drs. 3,000,000	3,105,000	2,530,000			Drs. 286,425.00	52
Do.....	1927	7	20	8	Drs. 2,500,000	2,587,500	2,146,100	Drs. 17,521,100	18,134,338.50	Drs. 238,688.00	52
Do.....	1928	7	20	9	Drs. 3,750,000	3,881,250	3,387,500			Drs. 376,876.00	52
Do.....	1929	7	20	12	Drs. 1,750,000	1,811,250	1,515,000			Drs. 184,668.00	52
Do.....	1927	7	30	8.75	Drs. 4,000,000	4,140,000	3,650,000			Drs. 324,414.00	45
Do.....	1927	7	30	7.95	Drs. 4,000,000	4,140,000	3,682,000	Drs. 11,733,000	12,143,655.00	Drs. 323,208.00	45
Do.....	1928	7	30	7.75	Drs. 4,850,000	4,992,250	3,982,875			Drs. 552,320.00	45
Caldas.....	1926	7½	20	10.50	Drs. 6,000,000	6,210,000	4,950,000			Drs. 620,087.50	61
Do.....	1926	7½	20	15	Drs. 4,000,000	4,140,000	3,380,000	Drs. 8,775,100	9,082,228.50	Drs. 946,725.00	
Do.....	1927	6	19	-----	Drs. 200,000	207,000	200,000			Drs. 12,000.00	61
Cundinamarca.....	1927	6½	31	12	Drs. 12,000,000	12,420,000	10,284,250	Drs. 11,609,000	12,015,315.00	Drs. 908,000.00	56
Santander.....	1928	7	20	11.34	Drs. 2,000,000	2,070,000	1,859,200	Drs. 1,835,000	1,809,225.00	Drs. 188,520.00	41
Tolima.....	1927	7	20	11.50	Drs. 2,500,000	2,587,500	2,212,500	Drs. 2,194,000	2,270,700.00	Drs. 240,195.00	48
Valle.....	1926	7½	20	15.50	Drs. 2,500,000	2,587,500	1,962,500			Drs. 247,935.50	58½
Do.....	1927	7½	20	10	Drs. 1,500,000	1,552,500	1,260,000	Drs. 3,538,000	3,661,830.00	Drs. 146,427.42	
Do.....	1928	7	20	11	Drs. 4,500,000	4,657,500	3,766,500	Drs. 4,077,000	4,219,605.00	Drs. 429,834.00	46
<b>Municipalities:</b>											
Bogota.....	1924	8	20	12.50	Drs. 6,000,000	6,210,000	5,224,902	Drs. 4,901,000	5,072,635.00	Drs. 606,000.00	67
Do.....	1927	6½	20	15	Drs. 2,700,000	2,794,500	2,173,416	Drs. 2,305,500	2,386,192.50	Drs. 243,808.00	63

Barranquilla.....	1925	8	10	14	Dlrs. 500,000	517,500	420,000	Dlrs. 195,700	202,540.50	Dlrs. 72,000.00	-----
Do.....	1925	8	15	13	Dlrs. 500,000	517,500	425,000	Dlrs. 312,000	322,920.00	Dlrs. 54,805.27	-----
Do.....	1926	8	20	12	Dlrs. 500,000	517,500	430,000	Dlrs. 433,800	448,983.00	Dlrs. 52,600.00	-----
Do.....	1928	8	20	11	Dlrs. 500,000	517,500	441,400	Dlrs. 452,000	467,820.00	Dlrs. 52,600.00	-----
Do.....	1929	8	20	12	Dlrs. 500,000	517,500	430,000	Dlrs. 481,300	498,145.50	Dlrs. 52,600.00	-----
Call.....	1927	7	20	14	Dlrs. 2,000,000	2,070,000	1,601,300			Dlrs. 187,868.00	-----
Do.....	1928	7	20	14	Dlrs. 635,000	657,225	541,338	Dlrs. 2,555,000	2,644,425.00	Dlrs. 60,751.00	48
Do.....	1930	7	20	13	Dlrs. 250,000	258,750	205,470			Dlrs. 24,060.00	-----
Medellin.....	1920	7	25	15	Dlrs. 3,000,000	3,105,000	2,385,000	Dlrs. 2,644,000	2,76,540.00	Dlrs. 271,025.00	68
Do.....	1928	6½	26	10½	Dlrs. 9,000,000	9,315,000	7,601,250	Dlrs. 8,378,000	8,637,230.00	Dlrs. 722,050.00	46½
<b>Banks:</b>											
Banco Agricola Hipotecario.....	1920	7	20	15	Dlrs. 3,000,000	\$3,105,000	2,525,000	Dlrs. 2,208,500	\$2,285,797.50	Dlrs. 340,000.00	73½
Do.....	1927	7	20	9.60	Dlrs. 3,000,000	3,105,000	2,712,000	Dlrs. 2,627,000	2,718,945.00	Dlrs. 281,666.00	73½
Do.....	1927	6	20	11.50	Dlrs. 5,000,000	5,175,000	4,425,000	Dlrs. 4,325,000	4,470,375.00	Dlrs. 440,117.00	61
Do.....	1928	6	20	10.20	Dlrs. 5,000,000	5,175,000	4,470,000	Dlrs. 4,415,000	4,569,525.00	Dlrs. 440,117.00	59
Do.....	1929	6½	30	11	£1,200,000	6,000,000	£1,068,000	£1,165,200	5,826,000.00	£91,416.00	72½
Banco de Colombia.....	1927	7	20	10.75	Dlrs. 2,000,000	2,070,000	Dlrs. 1,765,000	Dlrs. 1,758,500	1,820,047.50	Dlrs. 187,310.00	42
Do.....	1928	7	20	11¼	Dlrs. 1,050,000	1,086,750	923,750	Dlrs. 963,000	996,705.00	Dlrs. 94,235.00	42
Banco Hipotecario de Bogota.....	1927	7	20	11.25	Dlrs. 3,000,000	3,105,000	2,506,500	Dlrs. 2,633,800	2,750,722.50	Dlrs. 283,055.00	55
Do.....	1927	7	20	12	Dlrs. 3,000,000	3,105,000	2,625,000	Dlrs. 2,716,500	2,811,577.60	Dlrs. 281,692.00	55
Do.....	1928	7	30	13.50	£1,600,000	8,000,000	£1,384,000			£128,611.00	-----
Do.....	1929	7	30	4.50	£600,000	3,000,000	£573,000		£2,120,100	£48,350.00	65
Banco Hipotecario de Colombia.....	1926	7	20	12	Dlrs. 6,000,000	6,210,000	Dlrs. 5,253,200	Dlrs. 5,202,000	5,384,070.00	Dlrs. 565,410.00	50
Do.....	1927	7	20	9	Dlrs. 3,054,000	3,171,240	2,764,200	Dlrs. 2,630,000	2,722,050.00	Dlrs. 282,705.00	53
Do.....	1927	6½	20	15	Dlrs. 4,000,000	4,140,000	3,368,800	Dlrs. 3,669,500	3,694,432.50	Dlrs. 361,151.00	54
Balance at Dec. 31, 1930.....						241,847,905			204,381,037.50		-----
Decrease.....									208,150,770.00		-----
									3,769,732.50		-----

<sup>1</sup> In compiling this statement, loans already repaid have been omitted. Balances at June 30 were communicated direct by our foreign correspondents, as also quotations of June 10. Conversion of sterling to Colombian currency was made at par; dollars at a premium of 3½ per cent.

## RÉSUMÉ OF FOREIGN LONG-TERM LOANS OUTSTANDING AT JUNE 30, 1931

	Loans effected	Net proceeds in Colombian currency	Balances at June 30 in Colombian currency	Approximate cost of yearly service in Colombian currency
<b>The Nation:</b>				
In sterling.....£	5,277,538	28,387,680	7,700,450.00	1,505,625
In dollars.....U. S. \$	60,000,000	56,565,855	59,139,382.50	4,360,507
<b>Departments:</b>				
Antioquia.....U. S. \$	32,350,000	29,475,222	30,277,693.50	3,048,960
Caldas.....U. S. \$	10,200,000	8,859,600	9,094,648.50	502,571
Cundinamarca.....U. S. \$	12,000,000	10,644,199	12,015,315.00	934,608
Santander.....U. S. \$	2,000,000	1,924,272	1,859,225.00	195,429
Tolima.....U. S. \$	2,500,000	2,259,958	2,270,750.00	248,602
Valle.....U. S. \$	8,500,000	8,155,800	7,581,525.00	856,147
<b>Municipalities:</b>				
Bogota.....U. S. \$	8,700,000	7,657,259	7,458,727.50	879,551
Barranquilla.....U. S. \$	2,600,000	2,221,524	1,940,418.00	254,566
Cali.....U. S. \$	2,885,000	2,430,291	2,644,425.00	282,223
Medellin.....U. S. \$	12,000,000	10,335,769	11,407,770.00	1,027,833
<b>Banks:</b>				
Banco Agricola Hipotecario...U. S. \$	16,000,000	14,628,620	14,050,642.50	1,554,467
Do.....£	1,200,000	5,340,000	5,826,000.00	457,080
Banco de Colombia.....U. S. \$	3,050,000	2,782,856	2,816,752.50	291,399
Banco Hipotecario de Bogota...U. S. \$	6,000,000	5,311,103	5,568,300.00	584,513
Do.....£	2,200,000	9,785,000	10,600,500.00	884,805
Banco Hipotecario de Colombia...U. S. \$	13,064,000	11,784,779	11,800,552.50	1,251,590
<b>Total.....</b>		<b>216,577,777</b>	<b>204,393,457.50</b>	<b>19,567,493</b>

## B. BANK LOANS

The Nation, U. S. \$18,682,000 on September 30, 1931. Interest, 7 per cent.  
 Antioquian Railway, bank and other loans, \$392,000.  
 Tranvia de Oriente (Antioquia), \$500,000, 5 years (1927-1932). Interest, 8 per cent.

Senator JOHNSON. What proposition is made by Colombia with respect to these loans that are in the condition that you have indicated?

Mr. MATTHEWS. At present these various Colombian entities are required to deposit their debt service with the Colombian Central Bank in Colombian pesos. As I understand it, the present proposal of the Colombian Government is to issue to the bondholders interest-bearing scrip, an obligation of the national government, which is to be amortized, I believe, in a period of 10 years.

The CHAIRMAN. You say, an obligation of the Colombian Government?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. I presume you have some record of the department with reference to that?

Mr. MATTHEWS. I believe we have no formal record. Most of my information comes from personal conversations with Mr. Rublee, the financial advisor of the Colombian Government, and from the official decrees concerning the exchange restrictions sent in by our legation in Colombia.

Senator JOHNSON. Did you retain a memorandum, yourself, of those conversations?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. So that what Colombia expects to do in the settlement of these loans that have been sold in America rests en-

tirely in parole, that is, in the statements made by Mr. Rublee to you?

Mr. MATTHEWS. Yes, sir; as far as the negotiations between him and the Government have proceeded.

Senator JOHNSON. So far as the United States Government is concerned, that is, the State Department, its knowledge consists in no record whatsoever, but in statements that have been made to you by Mr. Rublee?

Mr. MATTHEWS. And in copies of the decrees transmitted from Bogota by our legation there.

Senator JOHNSON. Transmitted by whom?

Mr. MATTHEWS. By our legation.

Senator JOHNSON. By Mr. Caffery?

Mr. MATTHEWS. Partly by Mr. Caffery; partly by the present chargé d'affaires.

Senator JOHNSON. Those decrees you have, have you not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. But no record of the conversations, however?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Those decrees state in so many words exactly how these debts are to be taken care of?

Mr. MATTHEWS. Yes, sir. They do not cover the scrip plan, because that is still in the process of discussion.

Senator JOHNSON. Then there is an entirely different plan, is there not, from that referred to in the decrees?

Mr. MATTHEWS. Yes, sir. The decrees pertain to the gold restriction, the restrictions on export; but when the scrip negotiations are terminated they will take the form of a decree which, in turn, will presumably be transmitted by our legation.

Senator JOHNSON. But the decrees afford no information to the investing public of America as to how these loans are to be cared for?

Mr. MATTHEWS. No, sir; not yet.

Senator JOHNSON. Then the decrees do not enter into the ultimate settlement or the ultimate result, so far as American purchasers are concerned?

Mr. MATTHEWS. No, sir. They merely indicate the reasons for it, the protection of the gold reserves.

Senator JOHNSON. And thus far in the matter of \$100,000,000 or thereabouts that the American public have received of Colombia's securities, your knowledge of the situation as to what may be done rests wholly in what Mr. Rublee has said to you?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. And of that you have no memorandum?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. And of that you have conveyed nothing to the American public?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Correct. After those loans were made by Colombia and after they were floated in the United States, then was any other loan floated by Colombia?

Mr. MATTHEWS. Floated?

Senator JOHNSON. Yes.

Mr. MATTHEWS. Publicly?

Senator JOHNSON. Yes.

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Was any loan privately made by Colombia? You seem to make some distinction.

Mr. MATTHEWS. I was thinking of that \$20,000,000 credit which was negotiated in 1930, sir.

Senator JOHNSON. There was, then, a private loan negotiated by Colombia in 1930?

Mr. MATTHEWS. It was a bank credit; yes, sir.

Senator JOHNSON. And that was the National City Bank credit?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Of that you have knowledge, have you not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. A very extensive knowledge?

Mr. MATTHEWS. Yes, sir; I have seen the agreements.

Senator JOHNSON. No; I am not speaking of your seeing the agreement. But you have made memoranda respecting that, have you not?

Mr. MATTHEWS. No, Senator; I do not recall that.

Senator JOHNSON. Do you recall any memoranda that exist in the State Department, in your department at all, in relation to that loan?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Why, of course. There is a vast—

Mr. MATTHEWS. There is a memorandum of my conversation in New York with the bankers and of the Secretary's conversation.

Senator JOHNSON. You have a great deal of data in respect to that loan, have you not, in your department?

Mr. MATTHEWS. Yes, sir. There are telegrams and reports from Bogota, sir.

Senator JOHNSON. There are telegrams and reports from the United States representative at Bogota, are there not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. There are innumerable letters from Mr. Caffery in respect to the matter, are there not?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. And innumerable memoranda in regard to it?

Mr. MATTHEWS. Very many; yes, sir.

Senator JOHNSON. And there are, as well, memoranda which you have retained of what was done or said between the department and the National City Bank?

Mr. MATTHEWS. Yes, Senator; but as far as I know, I personally have only one memorandum.

Senator JOHNSON. Is that of your own conversation?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Well, there were other conversations, as you know, were there not?

Mr. MATTHEWS. Yes, Senator. They were not with me.

Senator JOHNSON. I give you full opportunity for explanation. We have \$100,000,000 sold to the people of America in a public loan made by various political subdivisions of Colombia, and the securities are now held by our people and they are about to go into default. You have nothing with respect to them and know practically nothing regarding them. You have a private loan made to the National City Bank concerning which you know everything and con-

cerning which you have much memoranda. Why was there the interest in that private loan, indicated by your records and by what you have done, and why was there no interest in the public loan where our people were holding securities that now are about to go into default?

Mr. MATTHEWS. Senator, our interest in the private loan arises not as a loan matter, but in view of difficulties between the Colombian Government and the bankers over what the Colombian Government considered the interpretation of the short-term credits agreements. Our interest was in attempting to straighten out a difficulty between an American institution and a foreign government, and it was not taken up as a loan matter.

Senator JOHNSON. You were endeavoring to straighten out differences that arose over a private loan made to the Colombian Government by the National City Bank, but you made no efforts to straighten out a difficulty by Colombia and its political subdivisions where \$100,000,000 had been put into the pockets of Colombia by American investors or Americans who purchased the bonds. Is that correct?

Mr. MATTHEWS. That is correct, Senator. There was nothing for us to do.

Senator JOHNSON. We will come back to the private loan, then, because as I understand it, you know little or nothing about the public loans. The private loan was made after the public loans were floated in the United States, was it not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And the private loan is to be your concern because of the difficulties that arose between the Colombian Government and a banking house?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. The public loans floated before that time have been of no concern to you, because nothing has arisen in regard to them, do you say?

Mr. MATTHEWS. Because they did not come before us; that is, the question of default.

Senator JOHNSON. The question of the private loan came before you, but public loans did not come before you?

Mr. MATTHEWS. The question of defaults did not come before us, Senator.

Senator JOHNSON. It has come before you of late, has it not?

Mr. MATTHEWS. Yes, sir; we have been informed of it.

Senator JOHNSON. And you have been informed of it for quite a little while now?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. What have you done in regard to the defaults upon the public loans?

Mr. MATTHEWS. Nothing, Senator.

Senator JOHNSON. And with regard to the private loan, when difficulties arose between Colombia and a private banking house, then you took the matter up?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did you take it up with the Colombian Government and also with the private banking house?

Mr. MATTHEWS. The Colombian Government expressed their point of view to our representative in Bogota. He cabled the Colombian Government's point of view to us, namely, to the effect that President Olaya felt that he had carried out the stipulations of the loan agreement and that the bankers were assuming an unduly technical position and that they should fulfill their obligations under the contract. We explained that point of view to the bankers.

Senator JOHNSON. Did you ask them to fulfill their obligations under the contract?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did not President Olaya say to you that he had done everything the Americans had asked, including the granting of the Barco concession?

Mr. MATTHEWS. Yes; he said that at one time in the latter part of June, I think.

Senator JOHNSON. Did you repeat that to the banking houses?

Mr. MATTHEWS. I did not, Senator.

Senator JOHNSON. Do you know that for a considerable period of time the National City Bank was declining to make this loan?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And that period of time covered—if I am in error in the dates, let me know, if you please—March, April, and May, did it not?

Mr. MATTHEWS. There were two payments involved.

Senator JOHNSON. The March payment was involved and also the June payment?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. On March 17, 1931, there were \$4,000,000 paid?

Mr. MATTHEWS. I believe that is the date, Senator.

Senator JOHNSON. Was there the same difficulty with relation to that \$4,000,000 payment by the National City Bank that applied to the subsequent \$4,000,000 that was paid June 30, 1931?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. But was there difficulty about the \$4,000,000 payment in March?

Mr. MATTHEWS. The difficulty about the \$4,000,000 payment in March was that the banking group insisted before making the loan—or took the attitude that before making that payment the Colombian Government should settle a British gold-mining claim which had been outstanding. President Olaya took the point of view that the question of the British gold-mining claim was entirely a new one and had never been brought up in the June agreement or at any other time, and that the bankers should not have raised that as a point or prerequisite to advancing the \$4,000,000 which they had promised to do.

Senator JOHNSON. That is, in relation to the March payment?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Was that a Colombian mining company?

Mr. MATTHEWS. A British mining company.

Senator JOHNSON. But was not that the name of it?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. And the March payment was withheld because the bankers were insisting upon a private payment being made to some mining company that was British in character?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. That is correct, is it?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And the State Department took that up?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Who took it up?

Mr. MATTHEWS. Mr. White took it up by telephone; first, with Mr. Winston, and then with Mr. Lancaster, as I recall it.

Senator JOHNSON. With Mr. Winston and then Mr. Lancaster. Will you state who Mr. Winston is?

Mr. MATTHEWS. He is in the same law firm as Mr. Lancaster. I think it is called Shearman & Sterling.

Senator JOHNSON. Did you subsequently take it up?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Did you have anything to do with taking up the claim of the British Mining Co. with the bank?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. What was done with the claim of the British Mining Co.?

Mr. MATTHEWS. It was settled by provision for payment over a number of years, and President Olaya included it in his budget.

Senator JOHNSON. That was the point of difference concerning the March payment?

Mr. MATTHEWS. That is right, Senator.

Senator JOHNSON. The payment of the British mining claim was settled?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And on March 17, 1931, then, the National City Bank gave credit to Colombia of \$4,000,000; is not that correct?

Mr. MATTHEWS. That is correct, Senator.

The CHAIRMAN. Do you know the terms of the settlement?

Mr. MATTHEWS. I do not recall the full amount. I believe it involves the payment of around 300,000 pounds sterling, and it was arranged to be paid over a period of three or four years. The amounts to be included in the Colombian budget.

Senator KING. Did you make any investigation to determine the validity of that claim?

Mr. MATTHEWS. No, Senator. It did not come before us. It had been pending for some time in Colombia.

Senator KING. Did the President of Colombia or any of the officials having authority to deal with the matter contest the validity of it?

Mr. MATTHEWS. It had been contested by previous administrations. I believe President Olaya felt it was a sore spot in their relations, and he wanted to reach a satisfactory settlement.

Senator KING. Probably it was conceded that something was to be done, but the amount was in dispute? Or are you familiar enough with that controversy—

Mr. MATTHEWS. Yes; it was a question of the amount of damages which should be paid.

Senator JOHNSON. After the March 17, 1931, credit of \$4,000,000 was extended, did other differences arise between the National City Bank and the Colombian Government?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. That was regarding the last of the credits to be extended, amounting to \$4,000,000, was it not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Do you know what the Barco concession is?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Will you state, please, upon the record what the Barco concession is?

Mr. MATTHEWS. The Colombian Government granted a concession, an oil concession, to one Virgilio Barco in 1905. It was a 55-year concession. The concession territory is over near the Venezuelan border. General Barco developed this concession to the best of his limited resources, but was not able to make a success of it; and in 1917 he came to the United States and sold an option on it to American interests. That option was subsequently taken by—

Senator JOHNSON. Wait a moment. Who were those American interests?

Mr. MATTHEWS. The option contract was negotiated with Mr. Carl K. McFadden who was then, I believe, chairman of the Carib Syndicate. He in turn interested E. L. Doherty, and they took up a 75 per cent interest in it. On February 2, 1926, the Colombian Government canceled the concession on the ground of nonfulfillment of the contract. At that same time—

Senator JOHNSON. Let me get this correctly. It was a concession that was granted originally in 1905?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. In 1926 the Colombian Government rescinded it?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. The concession related to oil lands, did it not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Of very large extent?

Mr. MATTHEW. The area in question was of large extent. The lands were unproved.

Senator JOHNSON. They were immediately adjacent, however, to Venezuela, were they not?

Mr. MATTHEWS. Yes, Senator; and were supposed to be wealthy.

Senator JOHNSON. The Doherty interests acquired the concession in 1917?

Mr. MATTHEWS. Or 1918.

Senator JOHNSON. Who subsequently acquired the concession?

Mr. MATTHEWS. The Gulf Oil Co. bought out the Doherty interests in 1926.

Senator JOHNSON. That is the Mellon interests?

Mr. MATTHEWS. I believe that is the Mellon company.

Senator JOHNSON. They acquired 75 per cent of the Barco concession?

Mr. MATTHEWS. Yes, Senator.

Senator WALSH of Massachusetts. After the Colombian Government had intervened?

Mr. MATTHEWS. The option which they obtained was prior to the cancellation of the concession.

The CHAIRMAN. Why was the original concession canceled? Did they comply with it?

Senator WALSH of Massachusetts. The Colombian Government said they did not comply with it.

Mr. MATTHEWS. You mean in 1926, Senator?

The CHAIRMAN. Whenever it was canceled originally.

Mr. MATTHEWS. For nonfulfillment of the terms of the contract. The contract provided, among other things, that the companies must submit a detailed plan of the territory within a certain period. A plan was submitted which the company said was accepted by the Colombian authorities. In canceling the concession the Colombian Government stated that the plan was not sufficient in detail; that it was merely a sketch, and hence did not meet the terms of the contract.

Senator JOHNSON. That was in 1926?

Mr. MATTHEWS. Yes, Senator.

Senator WALSH of Massachusetts. But prior to that I understand the Doherty people had given an option to what is described as the Mellon interests?

Mr. MATTHEWS. To the Gulf Oil Co.

Senator WALSH of Massachusetts. But that option was not consummated until after the Colombian Government intervened, namely, in 1926 or 1927?

Mr. MATTHEWS. Yes, sir. It was consummated, I believe, two weeks afterwards.

Senator WALSH of Massachusetts. After the Colombian Government intervened?

Mr. MATTHEWS. Yes, Senator.

Senator WALSH of Massachusetts. Was the intervention at the request of the Gulf Co.?

Mr. MATTHEWS. What intervention, sir?

Senator WALSH of Massachusetts. By the Colombian Government.

Mr. MATTHEWS. No, no, Senator.

Senator JOHNSON. Who held the other 25 per cent interest?

Mr. MATTHEWS. The Carib Syndicate.

Senator JOHNSON. Do you know who they are?

Mr. MATTHEWS. No, sir. I understand they are an American oil company.

Senator JOHNSON. I ask you if this is a fact. Is that a J. P. Morgan & Co. syndicate?

Mr. MATTHEWS. I have heard it said. I have no information on the subject.

Senator JOHNSON. I do not know the fact, and I am inquiring merely for information.

Mr. MATTHEWS. I saw it referred to that way in the papers. I do not know either, Senator.

Senator JOHNSON. Did you ever make any investigation to ascertain?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. In 1926 came the decree canceling the Barco syndicate?

Mr. MATTHEWS. The Barco concession.

Senator JOHNSON. Pardon me—the Barco concession. All right, sir. In 1931 the Barco concession, or a Barco concession of similar character, was granted by the Colombian Government, was it not?

Mr. MATTHEWS. A new contract, Senator. There were various intervening steps in 1927 and 1928.

Senator JOHNSON. I will reach them in just a moment. But in 1931 the Barco concession was granted, was it not?

Mr. MATTHEWS. A new contract covering the same territory was granted.

Senator JOHNSON. And that was with the Gulf Oil Co.?

Mr. MATTHEWS. It was with the South American Petroleum Co., which is, I understand, 75 per cent owned by the Gulf Oil Co. and 25 per cent by the Carib, just as the other concession.

Senator JOHNSON. Do you remember the date when the new franchise or concession was made?

Mr. MATTHEWS. The contract was signed, I believe, early in March, 1931. It went through the Colombian Senate and the Colombian House and was finally approved on June 18 by the House and signed by the President on the 20th, 1931.

Senator JOHNSON. On June 18 it was passed by the House; on June 20 it was signed by the President. The concession was then regranted or granted to the Gulf Co. of which the Mellon interests are the controlling factor, and during the period from March until June there was trouble over the granting of the remainder of the loan by the National City Bank, was there not?

Mr. MATTHEWS. Yes, sir; quite unconnected with the Barco concession, though.

Senator JOHNSON. Oh, that is all right. The facts, I think, will speak for themselves in the record. You may make any answer you desire in that respect.

Mr. MATTHEWS. I merely wanted to state that the Barco concession had nothing to do with that.

Senator JOHNSON. But after March there was difficulty over the remaining \$4,000,000 to be deposited as credit or to be given as a credit by the National City Bank?

Mr. MATTHEWS. Yes; Senator.

Senator JOHNSON. Taking the juxtaposition of the dates, up to March, there was trouble over the settlement of the English mining claim. When the English mining claim was settled, \$4,000,000 on the 17th day of March, 1931, was granted as a credit by the National City Bank to the Colombian Government?

Mr. MATTHEWS. Correct, Senator.

Senator JOHNSON. Between March and July there were negotiations in relation to the granting of the Barco syndicate in Colombia.

Mr. MATTHEWS. Between March and June 18, the Barco contract, which was signed early in March, was pending before the Colombian Congress, and there was considerable opposition to it.

Senator JOHNSON. There was quite a fight over it, was there not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. On the 30th day of June, 1931, the \$4,000,000 additional was granted to Colombia as a credit by the National City Bank.

Mr. MATTHEWS. Yes, Senator; under the terms of their agreement.

Senator WALSH of Massachusetts. And let me ask right there, how long had that been held up?

Senator JOHNSON. There had been a controversy over it from March, according to the witness.

Mr. MATTHEWS. Trouble over the second \$4,000,000 from May 12.

Senator JOHNSON. Well, that narrows the date. I do not wish to repeat the language of the witness to you, Senator Walsh, but there had been difficulties over it.

Senator WALSH of Massachusetts. And you are trying to show that it was a strange coincidence that these two things were going on at the same time, the concession being granted by the Republic of Colombia and the money being loaned by the banks in this country.

Senator JOHNSON. Yes. And during the time the difficulty arose with the National City Bank they were declining to make a loan, were they not, Mr. Matthews?

Mr. MATTHEWS. I did not understand your question.

Senator JOHNSON. And from the time the difficulty arose with the National City Bank and the Republic of Colombia, the National City Bank was declining to make the additional loan?

Mr. MATTHEWS. Yes, Senator, chronologically speaking.

Senator JOHNSON. Exactly. When was it that the State Department first interested itself in that loan?

Mr. MATTHEWS. In that loan?

Senator JOHNSON. Yes.

Mr. MATTHEWS. In March of 1931.

Senator JOHNSON. In March of 1931?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. When was it that the Colombian Congress met?

Mr. MATTHEWS. Ordinarily the sessions of the Colombian Congress start on July 20 every year, and they continue normally until the 15th of November. But because of the many matters of a constructive nature which President Olaya wished the Congress to enact, he extended it in extraordinary session from November, 1930, on through until a few days of the opening session of the new Congress in July of 1931.

Senator JOHNSON. Was it not in March that he began his appeals to the Congress to agree to the new Barco concession?

Mr. MATTHEWS. Yes, Senator. When the contract was signed it was presented to the Congress and he urged its approval.

Senator JOHNSON. And there was debate in the Congress extending over a couple of months, was there not?

Mr. MATTHEWS. Yes, Senator. The Barco concession had been a very controversial subject in Colombia.

Senator JOHNSON. It even rivaled the debate of the United States Senate on controversial questions.

Mr. MATTHEWS. Well, Senator, I should not like to say about that.

Senator JOHNSON. At any rate, the dispute went on during March, April, and May of 1931.

Mr. MATTHEWS. The Barco concession dispute, do you mean?

Senator JOHNSON. Yes, sir.

Mr. MATTHEWS. There were discussions of it in the Congress.

Senator JOHNSON. There were discussions of it, and then finally a decree was passed, as you have said, on the 18th day of June, was signed by President Olaya on the 20th day of June, and all of this time that we are now speaking of the National City Co. was holding up its loan to Colombia and declining to make it.

Mr. MATTHEWS. Yes, Senator, and for an additional period of time after that, until the 30th of June.

Senator JOHNSON. And that is a period of 10 days, isn't it?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. It is not a very great amount of additional time.

Mr. MATTHEWS. No, Senator, but new points came up.

Senator JOHNSON. Did any other concessions come up?

Mr. MATTHEWS. No concessions came into it.

Senator JOHNSON. At any rate, the President of the Republic down there iterated and reiterated, didn't he, when he was complaining of the National City Bank as to its refusal to lend him the additional credits, that he had done everything the Americans had required and asked, including the granting of the Barco concession?

Mr. MATTHEWS. I do not know whether he put it that strongly. He said he had done many things which were favorable to American interests, and he mentioned the Barco among them. But what he emphasized especially was that he had fulfilled all the stipulations which the bankers had suggested to improve the economic situation of Colombia.

Senator JOHNSON. Did your representative in Bogota, or did anybody in the State Department, explain to you why he mentioned, and mentioned many times, too, the fact that he had given the Barco concession again?

Mr. MATTHEWS. I did not understand your question.

Senator JOHNSON. Did you learn from anyone why it was that he coupled it with the matter when he said he had done all that the Americans had asked, why he coupled the Barco concession with his grant of things done in behalf of Americans?

Mr. MATTHEWS. Because large American interests were involved in it, and it was one of the points of controversy which he wanted to clear up, as he announced when he took office, that he wanted to clear up all outstanding difficulties.

Senator WALSH of Massachusetts. Do you feel, in view of these subjects that have been discussed just now by Senator Johnson, that there was any connection between the granting of the Barco concession and the lending of this money to the Republic of Colombia?

Mr. MATTHEWS. None whatsoever, Senator.

Senator WALSH of Massachusetts. That it is merely a coincidence or an accident that the two things happened to be going on at the same time?

Mr. MATTHEWS. Yes, Senator. I have a feeling that President Olaya did feel that if this long-pending Barco concession were settled, it would improve the credit standing of Colombia in this country, and would enable him possibly in the future to obtain further loans.

Senator WALSH of Massachusetts. Just one further question along that line: Just how long was the \$4,000,000 suspended in the matter of payment to the Colombian Government?

Mr. MATTHEWS. The second \$4,000,000?

Senator WALSH of Massachusetts. Yes. When under the agreement was Colombia entitled to it, and how long was it delayed?

Mr. MATTHEWS. A date was not specified under the agreement when it was to be paid, and President Olaya merely wanted assurance that he would have it by June 30, and the bankers were withholding that assurance.

Senator WALSH of Massachusetts. How long was President Olaya trying to get it?

Mr. MATTHEWS. From May 12 when we first heard of it until June 30 when the money was paid.

Senator WALSH of Massachusetts. And some time before May 12 President Olaya was trying to get the money from the bank in New York, but he did not get it until June 30.

Mr. MATTHEWS. That is correct, Senator.

Senator JOHNSON. When was the first time that you heard the State Department was interested in the obtaining of the loan by Colombia from the National City Bank?

Mr. MATTHEWS. The first time that I heard of it, Senator?

Senator JOHNSON. Yes.

Mr. MATTHEWS. It was when President Olaya was up here as President elect of Colombia. I think that was in May or April of 1930.

Senator JOHNSON. You think it was in May or April of 1930?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Were you a member of your department at that time?

Mr. MATTHEWS. Yes, Senator; I had just come in.

Senator JOHNSON. Did you accompany President Olaya?

Mr. MATTHEWS. I did, Senator. I was attached more in a protocol nature. We always attach some one from the department to a president elect of a foreign country.

Senator JOHNSON. Were you present in the negotiations with respect to the loan to Colombia?

Mr. MATTHEWS. At none of them, Senator.

Senator JOHNSON. Did you attend any meeting where the loan was discussed?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. None at all?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Subsequently when the difference arose between the Colombian Government and the National City Bank what, if anything, did you do?

Mr. MATTHEWS. I came into the picture on May 16, 1931. The Secretary of State—well, let me go back. On May 12 we received information from our legation at Bogota that President Olaya had felt that he had complied with the stipulations of the contract, and yet the bankers, because of questions affecting the budget which had since become unbalanced, were not willing to grant the \$4,000,000. That was the second \$4,000,000 in question. The Secretary, who was in New York or on Long Island, and I mean the Secretary of State, on personal business, had a telephone conversation with Mr. Lancaster—

Senator JOHNSON (interposing). About what?

Mr. MATTHEWS. About the question of this second \$4,000,000 loan.

Senator JOHNSON. Do I understand you to say that the Secretary himself took the matter up?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Took the matter up of the dispute between the Colombian Government and the National City Co. in regard to the last \$4,000,000.

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Were you familiar with what the Secretary said at that time?

Mr. MATTHEWS. Partly. Let me explain.

Senator JOHNSON. All right.

Mr. MATTHEWS. As I say, he spoke to Mr. Lancaster over the telephone on Saturday, May 16. He did not have the various detailed information at hand. He telephoned down to Mr. White and asked to have me go to New York, which I did, on Sunday, May 17.

Senator JOHNSON. For you to go to New York for what purpose?

Mr. MATTHEWS. To confer with the secretary. He was in New York on personal business at the time. I met him on Monday morning and explained the details of the agreement. He called in Mr. Lancaster—

Senator JOHNSON (interposing). Pardon me a moment. Did you know the details of the agreement?

Mr. MATTHEWS. Yes, Senator. We had a copy of it.

Senator JOHNSON. By virtue of that alone, did you have your information?

Mr. MATTHEWS. No, Senator. We had received this information from our minister in Bogota.

Senator JOHNSON. Did he keep you advised in relation to the loan constantly?

Mr. MATTHEWS. No, Senator. But he had informed us of those difficulties between President Olaya and the bankers.

Senator JOHNSON. When was his first notification to you?

Mr. MATTHEWS. May 12, 1931.

Senator JOHNSON. Well, hadn't he notified you about the difficulties of the March payment?

Mr. MATTHEWS. Yes, Senator; but I thought you were referring to the last \$4,000,000.

Senator JOHNSON. So, sometime before March was your first information?

Senator WALSH of Massachusetts. So you came into the picture on May 16.

Mr. MATTHEWS. I meant so far as speaking to the bankers is concerned. No; I was handling the Colombian matter in the department.

Senator WALSH of Massachusetts. All the time?

Senator SHORTRIDGE. You had a copy of the agreement before May 16?

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. Did you take it with you to New York?

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. And there you met the Secretary of State?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. At what time did the differences first erupt so that the State Department or your division was familiar with them?

Mr. MATTHEWS. In March of 1931.

Senator JOHNSON. That is, prior to the March payment?

Mr. MATTHEWS. Yes, Senator. I mean this mining claim which I have mentioned.

Senator JOHNSON. Who, if anybody, took that up with the banking house?

Mr. MATTHEWS. Mr. White, by telephone.

Senator JOHNSON. Mr. White had taken it up by telephone, then?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Had you then taken up any of the matter at all?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Now, before March had you received any wires or any communications from your representative at Bogota as to the differences that had arisen down there?

Mr. MATTHEWS. I do not recall any, Senator.

Senator JOHNSON. All of these communications that were received from Mr. Caffrey down there, or whoever was in charge at the time, you have here in your department, I assume.

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Now, after March, when Mr. White took the matter up with the banking firm, you had nothing to do with it until May when you have mentioned?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And then you went to New York at the instance of the Secretary of State?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And you saw the Secretary of State.

Mr. MATTHEWS. I saw him on Monday, May 18.

Senator JOHNSON. And I assume you explained to him the situation as best you could?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did you know the difference that then existed?

Mr. MATTHEWS. Yes, Senator; that they were arising out of a question of balancing the budget.

Senator JOHNSON. From whom had you learned that?

Mr. MATTHEWS. From our legation at Bogota.

Senator JOHNSON. And that was all the difference that existed at that time?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. The one arising out of the balancing of the budget, you say?

Mr. MATTHEWS. Yes, Senator. One of the provisions, as you will recall—

Senator JOHNSON (interposing). I remember them.

Mr. MATTHEWS. One of the prerequisites for the granting of this money was that the Colombian budget should be balanced. And the bankers had agreed in effect that the budget had been balanced. But subsequently, owing to a falling off of revenues, the budget became out of balance again. And President Olaya felt that no government could continue balancing its budget every week, and that the bankers having agreed that it was balanced, that the matter was all right. He felt that it was a technical objection and that he had fulfilled his part of the contract. That is what I explained to the Secretary in New York. That was on Monday morning, May 18. The Secretary telephoned to Mr. Lancaster—

Senator JOHNSON (interposing). Pardon me. Did you explain to the Secretary that President Olaya said he had done everything the Americans had asked, including the Barco concession?

Mr. MATTHEWS. He did not mention the Barco concession. President Olaya had not mentioned it at that time.

Senator JOHNSON. He had not mentioned it at that time?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. When did he first mention it?

Mr. MATTHEWS. I think around the 20th or the 19th of June. When was it, Mr. White?

Mr. WHITE. It was the 19th?

Mr. MATTHEWS. Yes; it was the 19th.

Senator JOHNSON. Whom did he mention it to?

Mr. MATTHEWS. He mentioned it to our minister at Bogota, Mr. Caffery.

Senator JOHNSON. Did our minister convey it to you in writing?

Mr. MATTHEWS. By telegraph. It was one of the things that he mentioned in connection with the line of difficulties there.

Senator JOHNSON. However, on June 19 you had a communication in writing from your minister at Bogota in which the Barco concession was mentioned.

Mr. MATTHEWS. Among other things. We got the telegram on June 20. At that time the bankers were planning to raise the rate of interest on the extensions already granted, and President Olaya felt that inasmuch as the Colombian public made no general distinction as between American interests and the interests who had been applying for, I think, the Barco concession, that if that Barco concession was approved, Colombia's credit standing would be greatly improved, and he felt that if in the face of that the first result would be the raising of the rate of interest then naturally the public opinion in Colombia would be quite——

Senator JOHNSON (interposing). Let me ask you——

Senator SHORTRIDGE (interposing). Go on and finish your sentence.

Mr. MATTHEWS. Well, the Colombian public would be quite chagrined.

Senator JOHNSON. Would you make a notation of that date, June 18 or 20, and after luncheon furnish that telegram, as to the Barco concession?

Mr. MATTHEWS. I can not produce it. If you would care to ask for it in writing I am sure the Secretary will give your request every consideration.

Senator SHORTRIDGE. You mean that you have no authority to produce it?

Mr. MATTHEWS. That is it, Senator.

Senator JOHNSON. Who has authority to produce it?

Mr. MATTHEWS. The Secretary of State.

Senator JOHNSON. Does Mr. White have authority to produce it?

Mr. WHITE. There are no communications between the two Governments on this matter. There are communications between our representatives at Bogota and the Department of State. It is not the practice to publish those, to spread them throughout the public press. However, if you or any member of this committee would like to see those papers in confidence, they are at your disposal at the Department of State.

Senator JOHNSON. I decline absolutely to look at them in confidence, where I can not develop them to my fellow members.

Mr. WHITE. Well, of course, that would apply as I have already said to any member of the committee.

Senator JOHNSON. I have already had that up with the Secretary of State. I will not receive in confidence any statement that can not be utilized with my colleagues subsequently. I presume by your response that the Department of State would decline to produce any document or any paper. But I now ask you, as the head of that department, to produce here at 2 o'clock this afternoon the communication from our representative at Bogota, addressed to the Department of State, wherein the Barco concession is mentioned. And at 2 o'clock this afternoon you can make your response as to whether or not you will do so.

Senator WALSH of Massachusetts. Senator Johnson, do you desire to see this communication for the purpose of cross-examination?

Senator JOHNSON. Yes, sir.

Senator WALSH of Massachusetts. And for the purpose of testing the credibility of previous testimony?

Senator JOHNSON. Indeed, I do. I want such communication or communications in connection with the subject matter which is in testimony

The CHAIRMAN. And you desire to put them in the record?

Senator JOHNSON. Yes, sir. I should not regard them as confidential in the slightest degree. My position is that they are public records, that we are entitled to be furnished with communications of this sort, particularly in an investigation of this character, and that our people are entitled to know exactly the words contained in the communications passing between the representative of the United States in Bogota and the State Department. Now, that is my attitude. You may explain it if you desire to, Mr. White or Mr. Matthews.

Senator SHORTRIDGE. Is it the position of the State Department that there may be communications passing between our representatives—or, for example, in Colombia in this case, and the—and the State Department which it would not be either wise or beneficial to make public? Is that the attitude or the feeling?

Mr. WHITE. Yes. The minister in Bogota, quite naturally in the exercise of his duty, will report fully to the department, and he reports on political matters in the country, and on situations which we do not feel it is wise to make public. But those communications are at the disposal of any member of the committee who wishes to see them.

Senator SHORTRIDGE. I merely observed that it is conceivable that that might be so, where it would not be wise, looking at the subject broadly, to disclose communications passing between our representatives abroad in any country, and the Secretary of State, or the President, for example. And I am sure that my colleague appreciates that, that there might be communications where it would be very unwise to make them public. As to this immediate matter, I have no opinion to express.

Senator GEORGE. Mr. Matthews, may I ask you this: The controversy or lack of agreement between the National City Bank—and is that the bank?

Mr. MATTHEWS. That is one of the group.

Senator GEORGE. Well, we will say the banks and the Colombian Government involved the question whether or not the budget of Colombia had been balanced, and so forth, you say?

Mr. MATTHEWS. It involved the question whether President Olaya had complied with such prerequisites laid down by the bankers, which included the balancing of the budget. And the bankers had agreed that the budget had been balanced; but subsequently it became out of balance.

Senator GEORGE. And did I understand you to say that it did not involve the Barco concession?

Mr. MATTHEWS. Not in the slightest.

Senator GEORGE. It was claimed, however, by the bankers, was it not, that the Colombian Government was to clear up or adjust a British mining company's claim?

Mr. MATTHEWS. That was over the previous installment of this loan—the previous \$4,000,000. That was in March.

Senator GEORGE. That was over the March installment?

Mr. MATTHEWS. Yes, Senator. The question of balancing the budget came up in May. There were two installments of \$4,000,000 each which had been provided for.

Senator GEORGE. The controversy over the March installment related to a British mining company claim?

Mr. MATTHEWS. Yes, Senator.

Senator GEORGE. Was the British mining company's claim, which, as I understand, was adverse to the concession, subsequently granted?

Mr. MATTHEWS. It was a gold-mining claim, and had nothing whatever to do with the Barco concession. It was an old gold-mining claim that had been pending for years.

Senator GEORGE. And the concession that you have referred to was in regard more to petroleum?

Mr. MATTHEWS. In regard entirely to petroleum.

Senator GEORGE. And the British mining company's claim related entirely to gold?

Mr. MATTHEWS. Yes, Senator. In two entirely separate sections of the country, and no connection whatever between them.

Senator GEORGE. That is all that I wish to ask.

Senator COSTIGAN. You mentioned a Mr. Winston earlier in your testimony?

Mr. MATTHEWS. Yes, Senator.

Senator COSTIGAN. In what connection?

Mr. MATTHEWS. Mr. Winston and Mr. Lancaster, as I understand, are partners in the same law firm, and are counsel for the National City Bank and the National City Co.

Senator COSTIGAN. Is this Mr. Winston a former Assistant Secretary of the Treasury?

Mr. MATTHEWS. I believe so. It is Mr. Garrard Winston, former Under Secretary of the Treasury, I believe.

Senator COSTIGAN. That is all that I wish to ask at this time, Senator Johnson, but I do have a line of questions later to propound when you are through.

Senator JOHNSON. I thank you.

Now, Mr. Matthews, we have reached the period, but first, in order that we may have our record straight, how much land does the Barco concession cover? I mean the last concession granted to the Mellon interests?

Mr. MATTHEWS. The last concession, which was granted to the Columbian Petroleum Co., covers 200,000 hectares, which is approxi-

mately 500,000 acres, to be selected over a period of 10 years, I believe.

Senator JOHNSON. It grants a concession for practically 500,000 acres, does it not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Of lands that are adjacent to proven oil lands in Venezuela.

Mr. MATTHEWS. Yes, Senator; or very nearly adjacent.

The CHAIRMAN. Are they proven oil lands, or producing oil lands, or just supposed to contain oil?

Mr. MATTHEWS. They are not producing. They are just supposed to be very valuable. In fact, in Colombia you hear the discussion of \$2,000,000,000. That is why it became such a controversial question.

The CHAIRMAN. I wondered if they are producing oil now.

Mr. MATTHEWS. None, Senator.

Senator JOHNSON. The Venezuelan lands are producing oil now.

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. And a great quantity of oil now.

Mr. MATTHEWS. Yes, Senator.

The CHAIRMAN. But are these Colombian lands producing oil now?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. But the Colombian lands are adjacent to and almost on the border of Venezuela as I understand it. If I am wrong, correct me: The lands granted to the Barco syndicate, composed of 400,000 to 500,000 acres in extent, are practically on the border of Venezuela.

Mr. MATTHEWS. Nearly on the border.

Senator JOHNSON. And the Venezuela lands are proven lands, just over the border.

Mr. MATTHEWS. Well, just how close the Venezuelan lands are, I can not say.

Senator SHORTRIDGE. What about the richness of those oil lands?

Senator JOHNSON. They are supposed to be the richest oil lands in the world.

Mr. MATTHEWS. That is a speculation.

The CHAIRMAN. Are they proven oil lands or producing oil lands?

Mr. MATTHEWS. They are not proven and are not producing. This territory is in a very dense jungle, and the most of it has not been explored, although a part of it has.

Senator WALSH of Massachusetts. Did I understand you to say that the people of Colombia took the position that the price paid for this concession was inadequate?

Mr. MATTHEWS. No, Senator.

Senator WALSH of Massachusetts. I thought you said they considered them very valuable lands or more valuable than the price that was paid for them.

Mr. MATTHEWS. They considered them very valuable, but they did not consider the price paid inadequate.

Senator WALSH of Massachusetts. What was the price paid?

Mr. MATTHEWS. It is a question of royalty percentage. It is 10 per cent at the field or 6 per cent at the coast on the gross production of oil.

Senator JOHNSON. You stated in answer to a question propounded by Senator Costigan that Mr. Winston was Under Secretary of the Treasury previously. Did he represent, if you know, the Carib syndicate?

Mr. MATTHEWS. I believe the law firm of Sullivan & Cromwell did.

Senator JOHNSON. Is there any former representative of ours in that firm?

Senator WALSH of Massachusetts. Representative of our Government, do you mean?

Senator JOHNSON. Yes.

Mr. MATTHEWS. Yes, I believe that Mr. Dulles is, but I am not sure that he took up this Barco matter. I have simply heard him mentioned as being in that firm.

Senator WALSH of Massachusetts. Would Mr. Olds know?

Mr. OLDS. He is associated with the office of Sullivan & Cromwell, as I understand.

Senator WALSH of Massachusetts. And he was a former Under Secretary of State?

Mr. MATTHEWS. Yes, Senator; he was in the State Department, I believe.

Senator WALSH of Massachusetts. Mr. Dulles was?

Mr. MATTHEWS. Yes, I think he was. I think at one time he was the chief of the Near-East Division. But I am not sure that he had anything to do with this matter.

Senator JOHNSON. Do you know Mr. J. Norman Stabler?

Mr. MATTHEWS. Jordan Herbert Stabler?

Senator JOHNSON. No; J. Norman Stabler.

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Wasn't there a gentleman of that name in the Latin American Division?

Mr. MATTHEWS. Do you mean Mr. Herbert Stabler?

Senator JOHNSON. Well, take it that way.

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. What was his occupation?

Mr. MATTHEWS. He was at one time chief of the Latin American Division.

Senator JOHNSON. What is his occupation now?

Mr. MATTHEWS. He is with the Gulf Oil Co. He is their representative in Venezuela at the present time, I believe.

Senator JOHNSON. Well, now, we will go back to May of 1931. We have been getting away from that quite a bit. In May of 1931, and the 18th of May, I think you said it was, or thereabouts, you went up to New York and met the Secretary.

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And you explained the situation to him?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And he went to see Mr. Lancaster, the attorney for the National City Bank?

Mr. MATTHEWS. Mr. Lancaster came to see him at his request.

Senator JOHNSON. Were you present?

Mr. MATTHEWS. A part of the time.

Senator JOHNSON. Where was it that they met?

Mr. MATTHEWS. They met at the Secretary's former law offices.

Senator JOHNSON. And those are situated where?

Mr. MATTHEWS. I do not recall the address. It is in down town New York.

Senator JOHNSON. The reason that I asked about it is because this is entirely new to me. And I understood Mr. Lancaster to say the other day that he has met nobody save yourself and those he met at the department here.

Mr. MATTHEWS. I think he said he met the Secretary. But I don't think he made it plain where he met him.

Senator JOHNSON. In Washington he said he met the Secretary, didn't he?

Mr. MATTHEWS. Well, I understood him to say that he met him. He may have forgotten that he met him in New York, because that was the first time I met Mr. Lancaster, and—

Senator JOHNSON (interposing). At the former law offices of the Secretary you met Mr. Lancaster and the Secretary met him?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Was any statement made by the Secretary of State or by you to Mr. Lancaster at that time concerning the loan by the National City Bank?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. What was it?

Mr. MATTHEWS. Just what I have said before, that President Olaya was upset at the attitude taken by the bankers. He thought he had fulfilled their prerequisites in connection with this advance of \$4,000,000, and that the bankers were being unduly technical in insisting that his budget be balanced every little while. They had agreed previously in effect that it was balanced, and President Olaya felt they were not living up to the terms of their contract.

Senator WALSH of Massachusetts. And he urged payment?

Mr. MATTHEWS. Yes, Senator. And, secondly, there was a question of dispute between an American group of bankers or an American institution and the foreign government which the Secretary honored could be straightened out in a manner satisfactory to both.

Senator JOHNSON. Did he suggest how it could be straightened out?

Mr. MATTHEWS. Yes, Senator; by payment of the \$4,000,000, if—

Senator JOHNSON (interposing). What he was suggesting was that it should be settled as Colombia desired.

Mr. MATTHEWS. He asked that the two points of view be considered and if possible reconciled.

Senator JOHNSON. And that the \$4,000,000 be paid?

Mr. MATTHEWS. No; merely that they consider it.

Senator JOHNSON. Oh, yes; of course, consider it.

Mr. MATTHEWS. He wanted to avoid the difficulties of a dispute between the Colombian Government and this group of American bankers.

Senator JOHNSON. Was there any way that the dispute could be avoided except by payment of the credit?

Mr. MATTHEWS. Yes, Senator. If the bankers had additional explanations to make which would convince President Olaya that they had a basis under the contract.

Senator JOHNSON. Did Mr. Lancaster convince the Secretary and you?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. You think they were wrong?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did the Secretary so express himself?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And did you so express yourself?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. So that both of you in conversation with the attorney for the National City Bank expressed the view of the Colombian Government, and after chatting with Mr. Lancaster stated to him that you thought the Colombian Government was right and that the bank was wrong; is that it?

Mr. MATTHEWS. We thought they should fulfill the provisions of the contract.

Senator JOHNSON. And that they should loan the further \$4,000,000?

Mr. MATTHEWS. Unless they had facts of which we were not aware and of which a refusal to pay would be justified by the contract.

Senator JOHNSON. You had there an interview in relation to a private loan. The Secretary of State himself was present, and the attorney for the Chase National Bank was present—

Mr. MATTHEWS (interposing). Not the Chase National Bank.

Senator JOHNSON. I beg pardon. I mean the National City Bank; the attorney was present, and you had explained the situation in its entirety. You had expressed your opinion that they ought to carry out their agreement to make the loan.

Mr. MATTHEWS. That they ought to carry out their agreement.

Senator JOHNSON. Which was to make a loan for \$4,000,000 that had not yet been made. That is correct, is it not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. All right.

Mr. MATTHEWS. It is correct, providing the contractual stipulations had been fulfilled.

Senator JOHNSON. Now, after that you went down and saw Mr. Schoepperle.

Mr. MATTHEWS. Mr. Lancaster left shortly thereafter. After lunch he saw Mr. Schoepperle, and he telephoned that there was some misunderstanding as to the conversations of the morning, and they had reference to this October memorandum which was the supplementary agreement of the bankers. You will remember the agreement of June 30, 1930, and then a supplementary one of October 25, 1930. So Mr. Lancaster asked to have me come over to Mr. Schoepperle's office to explain what the Secretary had explained in the morning and to bring the memorandum with me.

Senator JOHNSON. And you said to Mr. Lancaster: Of course, the United States Government is not interested in the matter of any private loan, and I do not propose to go over and talk to any banker in respect of it.

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Then what did you do?

Mr. MATTHEWS. I went over with the papers.

Senator JOHNSON. And what transpired?

Mr. MATTHEWS. I repeated to Mr. Schoepperle what the Secretary of State had said to Mr. Lancaster, that there appeared to be

some misunderstanding about the loan contract, and that he felt that President Olaya had fulfilled the terms of it.

Senator JOHNSON. And you thought they ought to do what?

Mr. MATTHEWS. Ought to live up to their agreement, unless they had other reasons to believe that President Olaya had not fulfilled the requirements of the contract.

Senator JOHNSON. And what did he say?

Mr. MATTHEWS. He said that while the budget had been balanced earlier, that it had since become out of balance, probably to the extent of about \$4,000,000, as I recall it; and that, secondly, as that was one of the essential things to the financial recovery of the Republic of Colombia, they were not obligated to grant the extension of the additional credit.

Senator JOHNSON. Did he express any resentment at your talking to him in regard to it?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Was there any indication of it?

Mr. MATTHEWS. No, Senator. I explained to him that we were merely trying to straighten out the dispute between the American company and a foreign government.

Senator JOHNSON. Had you done that often before?

Mr. MATTHEWS. I had never done it before. Personally, do you mean?

Senator JOHNSON. Yes.

Mr. MATTHEWS. I had never done it before, but we had.

Senator JOHNSON. At any occasion during the whole course of your career in the department had you ever before gone to a private banker concerning a private loan to any Latin-American country or subdivision of a Latin-American country?

Mr. MATTHEWS. No. No disputes of this nature had come up.

Senator JOHNSON. That is not what I asked you. I asked you if you had ever gone.

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. May I inquire, are you certain when you say that no disputes had ever come up between——

Mr. MATTHEWS (interposing). Of this nature. The question of the fulfillment of a contract between bankers and a foreign government.

Senator JOHNSON. Are you sure of that?

Mr. MATTHEWS. To my knowledge I am sure. I mean as far as I am concerned.

Senator JOHNSON. What you mean is, that you were informed no disputes had ever arisen; and so far as you are aware, was there ever any other occasion when the Secretary of State had gone to a private banker in reference to a private loan to any government or governmental subdivision in a foreign country?

Mr. MATTHEWS. I can think of none.

The CHAIRMAN. Did the State Department make any demand that it be carried out?

Mr. MATTHEWS. No, Senator. We were merely putting forth President Olaya's feeling that he had lived up to the terms of his agreement.

The CHAIRMAN. Did you express an opinion as to whether the money should be paid or not?

Mr. MATTHEWS. We stated that on the face of the information before us we thought President Olaya had lived up to his agreement.

Senator JOHNSON. Well, you did express the opinion that the loan should be made, didn't you?

Mr. MATTHEWS. We asked if they had any additional information.

Senator JOHNSON. Oh, yes. And wasn't it by reason of, first, the conversation with Mr. Lancaster and subsequently with Mr. Schoepperle, that they ought to go ahead and carry out the contract, that they make the loan?

Mr. MATTHEWS. That they should carry out their contract?

Senator JOHNSON. Yes. And that was said by the Secretary of State and was said by yourself?

Mr. MATTHEWS. We thought they should live up to the terms of their contract.

Senator JOHNSON. Exactly. And the terms of their contract were to make a loan of \$4,000,000.

Mr. MATTHEWS. After certain stipulations had been performed by the Colombian Government.

Senator JOHNSON. Up to that time didn't you think they had lived up to their contract, or did you?

Mr. MATTHEWS. On the face of the facts as we had them, we did not.

Senator JOHNSON. And after your conversation with Mr. Lancaster and Mr. Schoepperle you still thought they had not lived up to their contract?

Mr. MATTHEWS. We still held to the opinion that they were being unduly technical.

Senator JOHNSON. Was there any other occasion when you took up with Mr. Schoepperle, or Mr. Lancaster, or any other person, the matter of the Colombian loan?

Mr. MATTHEWS. On no other occasion.

Senator JOHNSON. Did you return at once to Washington that day?

Mr. MATTHEWS. That very afternoon, I believe.

Senator JOHNSON. Did you make a note or memorandum of what had transpired?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And that is in your archives?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did you subsequently have occasion to deal with the subject at all?

Mr. MATTHEWS. No, Senator. I personally did not. Shortly thereafter I took my annual leave, and by the time I got back it was after June 30 and the loan had been made. But I believe there were some subsequent conversations between Mr. White and Mr. Lancaster.

Senator JOHNSON. In Washington?

Mr. MATTHEWS. By telephone or in Washington.

Senator JOHNSON. Are you familiar with those conversations?

Mr. MATTHEWS. No, Senator; not entirely.

Senator JOHNSON. You say not entirely. Are you familiar at all with them?

Senator SHORTRIDGE. Oh, well, Senator Johnson, Mr. White is here, and let us get it from him.

Senator JOHNSON. I am going to get it from him, but if this witness was present I am going to ask him about it too.

Mr. MATTHEWS. I am familiar in a general way with what further difficulties arose, why the loan was delayed.

Senator JOHNSON. How did you become familiar with it?

Mr. MATTHEWS. By reading memoranda of the conversations.

Senator JOHNSON. Of whose conversations?

Mr. MATTHEWS. Mr. White's conversations.

Senator JOHNSON. Were you present at any of those conversations?

Mr. MATTHEWS. I was not.

Senator JOHNSON. The loan was delayed for a period of 10 days, I believe you said?

Mr. MATTHEWS. It was delayed. New difficulties arose and it was delayed, I believe, until June 30.

Senator JOHNSON. Would you explain to me what a caducity proceeding is?

Mr. MATTHEWS. I can not. That was in connection with the cancellation of the Barco concession, I believe. They did not call it cancellation or lapsing, but caducity.

Senator JOHNSON. It was an extremely curious expression to me.

Mr. MATTHEWS. There is an English word that is caducity. I do not recall the technical meaning.

Senator JOHNSON. You were in Colombia for a period of how long?

Mr. MATTHEWS. Three years.

Senator JOHNSON. During that time did you intervene in relation to any obligations of the Colombian Government?

Mr. MATTHEWS. What do you mean "obligations of the Colombian Government?"

Senator JOHNSON. Any sums that were due from them?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Did you intervene in behalf of any bank having any private loan in Colombia?

Mr. MATTHEWS. No, Senator. There were no difficulties that I recall.

Senator JOHNSON. Are you sure of that?

Mr. MATTHEWS. I do not recall any.

Senator JOHNSON. Do you recall any difficulty in 1927 over the Anglo-Persian Oil Co.?

Mr. MATTHEWS. Yes; but no difficulty in which we engaged.

Senator JOHNSON. What was the difficulty?

Mr. MATTHEWS. It was a difficulty between the Anglo-Persian Oil Co. and—or at least that the Anglo-Persian Oil Co. desired to get a concession, and they negotiated one with the Colombian Government, and that concession was not approved by the Colombian Congress. But we had nothing to do with it.

Senator JOHNSON. You did not intervene in any way, shape, form, or manner?

Mr. MATTHEWS. No, Senator. We did not intervene in any way, shape, form, or manner.

Senator JOHNSON. I ask you again so that the record may be certain in that regard: Is there any instance of any transaction where the Colombian Government was owing money and any banker

in the United States was concerned where you did interpose at any time?

Mr. MATTHEWS. No, Senator.

The CHAIRMAN. There was no claimant against Colombia who ever brought his matter to the attention of the State Department.

Mr. MATTHEWS. I did not hear your question, Senator Smoot.

The CHAIRMAN. You say that this was the only case that you intervened in. Have you ever heard of any other case where it was brought to the attention of the State Department?

Mr. MATTHEWS. No, Senator.

Senator SHORTRIDGE. Do you make use of the word "intervene"?

Mr. MATTHEWS. No, Senator. I did not use that word.

Senator SHORTRIDGE. Some significance might be given to the use of such a word.

Mr. MATTHEWS. No, Senator; I did not use it.

Senator JOHNSON. Well, we will amend the word.

Senator SHORTRIDGE. I am not criticizing or anything, but wanted to get his view.

Senator JOHNSON. I will put it this way: Where you interested yourself.

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. We will use the word "interested" instead of the word "intervene," and your answer would be the same, would it?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. All right. Do you recall anything of the occasion of Mr. Olds taking up with the Department of State in behalf of the Carib syndicate, the Barco concession?

Mr. MATTHEWS. No, Senator. I was in Bogota at the time of the Barco difficulties. I do not know who may have taken the matter up with the Department of State.

Senator JOHNSON. You are not familiar with whether or not it was ever done?

Mr. MATTHEWS. I am familiar with the fact that it was taken up with the Department of State, but as to who took it up I am not familiar.

Senator WALSH of Massachusetts. I suppose that knowledge comes from memoranda in the files.

Mr. MATTHEWS. My knowledge comes from the instructions to our legation in Bogota, where I was at the time. Knowledge that the matter was taken up at the department reached me at our legation in Bogota, where I was secretary at the time.

Senator JOHNSON. That is, you mean the Barco concession?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did you know whether Mr. Olds was the one who took it up?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Did you act in connection with it at the time?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did you endeavor to see that the Barco concession was reinstated or revalidated or renewed or rejuvenated, or use any verb you desire in that connection?

Mr. MATTHEWS. We first asked in February of 1928—well, to go back a little: When the concession was revoked, within a period of

30 days, and apparently under the provisions of Colombian law the concessionaire filed a request or petition for reconsideration of the Government's decree. Two years went by and they were unable to get any answer to that request for reconsideration. So in February of 1928 the department, having gone into the question, instructed the legation to inquire of the Colombian Government when a reply might be expected to that request for a reconsideration. The Colombian Government replied that it was a matter between a Colombian company, because nominally the interests owning the Barco were incorporated under Colombian law, and the Colombian Government, with which the legation had nothing to do. The legation replied, under instructions from the department, that it was a company over 95 per cent of whose stock was owned by American citizens.

Senator JOHNSON. And did you leave it there?

Mr. MATTHEWS. No, Senator. Then, as I recall it, the negotiations between the company and the Colombian Government dragged on some months further, until July of 1928, when the department instructed the legation that having gone into the matter rather carefully it felt that the cancellation was not justifiable and that the 1928, the Colombian Government issued a new decree reaffirming the concession should be restored. That was in July. On August 4, cancellation but on entirely new grounds. The legation then, under instructions from the Government, pointed out to the Colombian department that inasmuch as this new decree was based on new grounds it assumed that the company had an additional period of 30 days in which to file a further request for reconsideration. The Colombian Government, as I recall it, replied again that it was a matter between a private Colombian entity and the Colombian Government, with which the legation had nothing to do. That was, I believe, in November of 1928. So far as I know, in fact I am sure there was no further communication with the Colombian Government, after November of 1928.

Senator JOHNSON. When was it that you saw the contract between the Colombian Government and the National City Bank, or between Mr. Olaya, the President of the Colombian Government, and the National City Bank, I mean the first time that you saw it?

Mr. MATTHEWS. I think early in July of 1930.

Senator JOHNSON. In July of 1930?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Was that delivered at the State Department through your representative at Bogota?

Mr. MATTHEWS. No, Senator. It was delivered—or I think it was handed to me in New York by Mr. Caffery, our minister to Colombia.

Senator JOHNSON. Why was it handed to you by Mr. Caffery in New York?

Mr. MATTHEWS. Because President-elect Olaya had handed it to him.

Senator JOHNSON. With request that it be given to the State Department?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And Mr. Caffery was then in New York. Was he with President Olaya?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Had he been a part of the negotiations in reference to the loan?

Mr. MATTHEWS. I think he sat in on some of the conferences.

Senator JOHNSON. In New York?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. That is, you now mean to tell me that the United States minister at Bogota sat in on some conferences in New York between the National City Bank and the President of the Republic of Colombia concerning a loan by the National City Bank to Colombia. Is that correct?

Mr. MATTHEWS. He was attached to President Olaya there, and went with him everywhere.

Senator JOHNSON. Were both of you attached to President Olaya at that time?

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. Just what does that mean, attached to him?

Mr. MATTHEWS. When a president elect of any country comes to this country the department usually assigns certain people to accompany him during his stay in the United States, a military aide, a naval aide, and a representative or several representatives from the State Department.

Senator SHORTRIDGE. And that means that you were attached to him in the sense you have explained.

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. I see. Go ahead.

Senator JOHNSON. Does that necessarily mean that in the private business intended to be transacted by the President of a Republic the representative of the United States sits in?

Mr. MATTHEWS. Not necessarily.

Senator JOHNSON. All right. Here was the business of the Government of Colombia. On what theory were you gentlemen sitting in on that business?

Mr. MATTHEWS. At President Olaya's request Mr. Caffery accompanied him. He was familiar with conditions in Colombia.

Senator JOHNSON. So he accompanied him to the National City Bank?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. How many times would you say?

Mr. MATTHEWS. Two or three. I can not say definitely.

Senator JOHNSON. Were you present on any of the occasions?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. You subsequently talked with President Olaya and with Mr. Caffery.

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Do you mean that they went in and while you were attached to the President yet you refrained from going in, is that it?

Mr. MATTHEWS. There was no use in sending the whole troop of us with him.

Senator JOHNSON. Did the others sit in too?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. But when they had concluded their negotiations Mr. Caffery brought you a copy of the contract?

Mr. MATTHEWS. Which President Olaya had given him?

Senator JOHNSON. Which President Olaya had given him.

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did he say why?

Mr. MATTHEWS. No; except that it was of interest.

Senator JOHNSON. Of interest to whom?

Mr. MATTHEWS. To this Government, to the State Department. We like to be informed.

Senator JOHNSON. It was of interest to the State Department?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. In order that they might be informed?

Mr. MATTHEWS. Certainly.

Senator JOHNSON. You were furnished with a copy of the contract and what transpired?

Mr. MATTHEWS. Certainly.

Senator JOHNSON. Are you aware that there had been a State Department policy which has been pursued for a great period of time negative in character in reference to foreign loans?

Mr. MATTHEWS. In reference to loans that are publicly floated, I believe.

Senator JOHNSON. Public loans publicly floated. Private loans come in a different category, do they?

Mr. MATTHEWS. I do not think they were included in the department's foreign policy.

Senator JOHNSON. That is what I want to ask you. Have you one policy in regard to public loans publicly floated, and another policy in reference to private loans?

Mr. MATTHEWS. Senator, I think Doctor Feis can tell you our loan policy better than I can.

Senator JOHNSON. I am curious about it and would like to know.

Mr. MATTHEWS. So far as I know this was not a question of any loan policy. It was a question between President Olaya and Mr. Caffery, who were personal friends.

Senator JOHNSON. Mr. Caffery was a personal friend of President Olaya?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And as a matter of personal friendship he gave President Olaya a copy of the contract to give to the State Department?

Mr. MATTHEWS. President Olaya gave him a copy.

Senator JOHNSON. I meant that President Olaya gave him a copy to give to the State Department.

Mr. MATTHEWS. Yes, Senator; as a matter of information.

Senator JOHNSON. As a matter of information to the State Department?

Mr. MATTHEWS. Certainly.

Senator JOHNSON. I want to get back to your question of policy, because I assume in your official position you understand that policy. Your policy is one of negation in regard to public loans, is it?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And is your policy the antithesis of that in regard to this matter of private loans?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Is your policy in reference to private loans the same as to public loans?

Mr. MATTHEWS. The bankers have not been requested to consult us in the matter of private loans in the way they have been requested about public loans.

Senator JOHNSON. So that your policy in regard to private loans would not go as far as in the matter of public loans?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. On the question of public loans you desire the bankers to consult the State Department, and you respond in the matter of a consultation of that sort in a negative sort of way, with the words substantially speaking "no objection?"

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And that is the extent of your policy in reference to public loans, is it not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. You do not go, then, that far in reference to private loans?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. And as to the policy of the State Department in reference to private loans, it is that they are of no concern to the State Department?

Mr. MATTHEWS. We are interested in them for information.

Senator JOHNSON. Interested, I assume, like you are interested in any human event?

Mr. MATTHEWS. No. We want information as to what is going on in the various countries.

Senator JOHNSON. But, I mean in relation to any action that shall be taken by the State Department.

Mr. MATTHEWS. No; merely for the purpose of information.

Senator JOHNSON. You want it merely for the purpose of information?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. You collect that information just like you do a thousand other things, as a matter of information?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. But not for the taking of any action?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Not for the statement by you as to your policy?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Not for interference by you of any kind, isn't that correct?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. But here is one private loan where you did intervene?

Mr. MATTHEWS. We did not intervene, Senator.

Senator JOHNSON. Well, what do you call it? I do not care to fence with you on the use of the word "intervene." What do you call it?

Mr. MATTHEWS. Mr. Caffery was attached to President Olaya, and as a personal friend of his he accompanied him to the National City Bank and sat in.

Senator JOHNSON. I am speaking of subsequent events. And then what was done?

Mr. MATTHEWS. We took up the question of the dispute between an American company and a foreign government.

Senator JOHNSON. In the matter of a private claim?

Mr. MATTHEWS. It was a private matter.

Senator JOHNSON. On a private matter. All right. And the first thing you did with respect to what was transpiring between a foreign government and a private American institution, was to get the contract that Doctor Olaya gave to Mr. Caffrey, the United States minister, who handed it to you?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And you took that to the State Department, didn't you?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And I assume that when that contract was so delivered to the State Department you accompanied it with a memorandum of your own.

Mr. MATTHEWS. I did not.

Senator JOHNSON. Did you make any præcipe of it?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Did you make any comments upon it?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. What did you do with it?

Mr. MATTHEWS. I showed it to Mr. White and put it into the file.

Senator JOHNSON. You just filed it away?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Was there any statement by way of explanation made by you of any kind or character at that time?

Mr. MATTHEWS. No, Senator; not as I recall.

Senator JOHNSON. Do you recall at any time after consultation with Mr. Caffrey any statement of any sort prepared by you, any memorandum, that was put in the files of the State Department?

Mr. MATTHEWS. I do not recall any, Senator.

Senator JOHNSON. You feel quite certain on that point, I assume?

Mr. MATTHEWS. Yes, Senator. I think I would remember it if I had.

Senator JOHNSON. So that I may take it as settled that there was no memorandum prepared by you in connection with the particular contract?

Mr. MATTHEWS. I do not recall any.

Senator JOHNSON. Or filed away by you in regard to that contract?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Mr. Chairman, might we not take a recess for luncheon now, and then resume at whatever time you might wish?

Senator WALSH of Massachusetts. Let me ask a question before the recess. When private interests in this country seek to negotiate for the purchase of concessions in foreign countries, is the State Department consulted?

Mr. MATTHEWS. Not necessarily. Sometimes their representatives come to our legation and keep us informed.

Senator WALSH of Massachusetts. Does the State Department keep a record of those concessions and the terms of them?

Mr. MATTHEWS. I do not think we have any.

Mr. WHITE. Only if they are filed with us.

Mr. MATTHEWS. We never make it a point to get all concessions.

Senator WALSH of Massachusetts. Isn't it the custom of the State Department to keep a record of all concessions in foreign countries secured by our citizens?

Mr. MATTHEWS. We try to get them but do not always succeed.

The CHAIRMAN. It would be a good thing if you had all of them.

Senator WALSH of Massachusetts. I should think so.

The CHAIRMAN. The committee will now stand in recess until 1.30 o'clock p. m.

(Whereupon, at 12 o'clock noon, the committee recessed until 1.30 o'clock the same day.)

#### AFTER RECESS

The committee resumed its session at the expiration of the recess.

The CHAIRMAN. If the committee will come to order, we will proceed with the hearing.

Mr. White, will you be sworn, please?

(Mr. Francis White, Assistant Secretary of State, was duly sworn by the chairman of the committee.)

Senator JOHNSON. We have not concluded with Mr. Matthews, Mr. Chairman.

The CHAIRMAN. Mr. Matthews may go on with his testimony, then.

#### TESTIMONY OF H. FREEMAN MATTHEWS, ASSISTANT CHIEF OF THE DIVISION OF LATIN-AMERICAN AFFAIRS, STATE DEPARTMENT, WASHINGTON, D. C.—Resumed

The CHAIRMAN. Senator Johnson, I want you to know, and also the other members of the committee, that telegrams or letters that I may read have not been solicited on my part.

Senator JOHNSON. Oh, I realize that, and I think that it is quite the appropriate thing for the chairman to put into the record all such matters. I make no objection to them at all; but what I did object to was that the Secretary of Commerce, who was not the Secretary at the time and whose only knowledge concerning these matters is hearsay entirely, writes with the positiveness that the Secretary does in respect to these matters.

The CHAIRMAN. He has, of course, the records there.

Senator JOHNSON. He has a perfect right, however, to present any view that he desires; I grant that. You will not find me on any occasion preventing any witnesses under any circumstances giving any explanation, establishing any defense, indulging in any emendations, alterations, repairs, and the like that they may desire to in regard to anything that may occur in this examination. I want solely the facts.

The CHAIRMAN. And that is all I care about.

Senator JOHNSON. I am sure of that, sir, and we are both in accord in that regard.

Now, Mr. Matthews, we had reached, in the facts in this matter, the situation where you had had your conversations in New York, had expressed your opinion and returned.

Mr. MATTHEWS. Yes; Senator.

Senator JOHNSON. When was it that you first heard what the conclusion was of the National City Bank in reference to making the loan?

Mr. MATTHEWS. This second \$4,000,000?

Senator JOHNSON. Yes.

Mr. MATTHEWS. I first heard of it when I returned from my vacation, I think, about July 8 or 9.

Senator JOHNSON. When did you start on your vacation, please?

Mr. MATTHEWS. In the early days of June. I am not sure of the exact date.

Senator JOHNSON. So that you were not familiar with the facts, then, of course, that transpired from the early days of June until your return in July?

Mr. MATTHEWS. That is correct, Senator.

Senator JOHNSON. Is there any way that you have of determining when the viewpoint of the National City Bank changed?

Mr. MATTHEWS. No, Senator. As I recall it, sometime between our conversation in New York and before I went on my vacation the viewpoint of the National City Bank, so far as the question of the budget was concerned, did change. I think it was communicated by telephone from Mr. Lancaster to the secretary. Subsequent to that time, when I went on my vacation but before the \$4,000,000 was paid over, I believe other difficulties arose in connection with this same \$4,000,000.

Senator JOHNSON. Do you know what those difficulties were?

Mr. MATTHEWS. Yes, sir. I think one was the delay in drawing up the formal agreement whereunder the Colombian Government named this banking group as their official bankers. It has been referred to, I believe, loosely as a fiscal agency agreement. As Mr. Schoepperle pointed out, it was not a fiscal agency, but the naming of this group as the official bankers.

Senator JOHNSON. Do you know whether or not they designated themselves as a fiscal agency?

Mr. MATTHEWS. They did verbally.

Senator JOHNSON. You have seen the correspondence that passed, have you not, between their house in Bogota and the house in New York?

Mr. MATTHEWS. Some that they have given us.

Senator JOHNSON. Did you obtain it from your representative in Bogota?

Mr. MATTHEWS. Some from the bankers in New York and some from Bogota.

Senator JOHNSON. So that you had access to their correspondence?

Mr. MATTHEWS. Some of it.

Senator JOHNSON. Did you not know it was all that passed from Bogota to them?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. I presume, of course, you could not say it was all.

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. But there was much that related to this subject matter, was there not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Are you not aware that in that correspondence with their own house in Bogota they constantly referred to a fiscal agency?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. So that when you draw a distinction as between a fiscal agency—

Mr. MATTHEWS. I was following Mr. Schoepperle's testimony.

Senator JOHNSON. Let me suggest to you that it might not be entirely wise to follow Mr. Schoepperle's testimony.

Mr. MATTHEWS. I am not a financier.

Senator JOHNSON. So, testify of your own knowledge, if you please.

Mr. MATTHEWS. It was referred to as a fiscal agency.

Senator JOHNSON. Certainly. How was it that you obtained the correspondence between the house in Bogota and the house in New York of the National City Bank?

Mr. MATTHEWS. Some of it the bankers sent us and some was sent to us from our legation down there.

Senator JOHNSON. How did the legation in Bogota obtain the private correspondence passing between the National City Bank's representative in Bogota and the National City Bank in New York?

Mr. MATTHEWS. I suppose it was given to them—given to the legation.

Senator JOHNSON. By whom?

Mr. MATTHEWS. Probably some of it by the President and some by the local representative of the bank there.

Senator JOHNSON. And then transmitted by Mr. Caffery to you?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. You had a fairly intimate knowledge, then, of everything in respect to the dealings of the National City Bank with Colombia and Bogota, did you not?

Mr. MATTHEWS. I would not say fairly intimate. We had some knowledge of it.

Senator JOHNSON. It involved a very large part of their private correspondence as well?

Mr. MATTHEWS. As far as I know, it involved only their financial dealings with the Colombian Government.

Senator JOHNSON. I am not speaking of their correspondence, you know, upon casual subjects, but I am speaking of the subject of the loan to Colombia.

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. So far as you know, it was the complete correspondence, was it not?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Only a portion of it?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Can you tell me any reason why they should transmit to you a part of their correspondence and not all of it?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Why should the National City Bank send you its private correspondence, or any part of it, upon this subject? Do you know?

Mr. MATTHEWS. As a matter of information, I suppose.

Senator JOHNSON. Just as a matter of information?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did you seek it?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. It was sent to you voluntarily?

Mr. MATTHEWS. Sent by our legation in Bogota voluntarily.

Senator JOHNSON. You said some of it was received as well from the National City Bank?

Mr. MATTHEWS. Yes; some of it, I believe. Yes. I think, for instance, the October memorandum was sent us by the National City, and possibly some—

Senator JOHNSON. Some letters?

Mr. MATTHEWS. Some cables.

Senator JOHNSON. That they had sent down there?

Mr. MATTHEWS. Yes, Senator. For instance, one cable I remember was textually read to the Secretary over the telephone by Mr. Lancaster.

Senator JOHNSON. Do you know whether or not the State Department has made any ruling as to what takes precedence, governmental loans that are sold to our people or the private loan that was made by the National City Bank?

Mr. MATTHEWS. Senator, the State Department has made no ruling that I know of in that connection.

Senator JOHNSON. Has there been any opinion rendered by your solicitor in that regard that you are familiar with?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Have you any opinion as an expert upon Latin American affairs—

Mr. MATTHEWS. I am not an expert, Senator.

Senator JOHNSON. I assumed that you were from the position you hold, of course. But there was no invidious intent in the question in that regard.

But have you any opinion as to which takes precedence, governmental loans or the private loan of the National City Bank?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. No opinion whatsoever?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Have you heard the matter discussed?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. While you were at the legation at Bogota was there any agitation for a pipe line for oil through Venezuela?

Mr. MATTHEWS. No, Senator. As I recall, one of the questions involved in the Barco concession was which way, if the concession were revalidated, it should be taken out, whether through Venezuela or through Colombia. I believe that under the new contract it is provided that it must be taken out through Colombia.

Senator JOHNSON. Was there any discussion as to a pipe line for taking out the oil of the concession?

Mr. MATTHEWS. It was to be taken out by pipe line.

Senator JOHNSON. There was a discussion as to that?

Mr. MATTHEWS. I believe that in the Gulf conversations, their representatives' conversations, with the Colombian Government authorities at the time they were discussing the possible new contract, that point was quite material. The Gulf Co., I believe, took the position that most of the territory, which is a jungle and has never been explored—they could not say whether it was practically feasible to take the oil over the mountains and out through Colombian territory, or whether it should be taken out through Venezuelan territory.

Senator JOHNSON. Do you know whether or not they ever received a concession for a pipe line through Venezuela?

Mr. MATTHEWS. As far as I know, they never received any or even sought one.

Senator JOHNSON. Or even sought one?

Mr. MATTHEWS. As far as I know.

Senator JOHNSON. You are not familiar with any negotiations relating to that, if any occurred?

Mr. MATTHEWS. No, Senator. I recall that the point came up in discussion with the Colombian authorities as to whether it should be taken out through Colombian territory or Venezuelan territory.

Senator JOHNSON. Do you know whether or not the National City Bank, under the situation that exists to-day, receives its interest while the governmental loans sold to the people of this country do not receive their interest?

Mr. MATTHEWS. I believe the National City group receives their interest, and also the Colombian National Government loans are paying full interest, both interest and amortization, I believe.

Senator JOHNSON. But the bulk of the loans that are in this country, of the political subdivisions of Colombia, do not receive their interest?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. And that represents some eighty or a hundred millions of dollars?

Mr. MATTHEWS. Yes. The figure was brought out this morning.

Senator JOHNSON. Do you know the reason that those loans that have been sold to the American people do not receive their interest, while the private loan of the National City Bank receives its interest?

Mr. MATTHEWS. No, sir. The National Government apparently felt it was better for their credit standing to pay their National Government indebtedness in full and let the departmental and municipal indebtedness go.

Senator JOHNSON. That was the reason?

Mr. MATTHEWS. Because they have to protect, or feel that they have to protect, their gold reserve. There was not enough gold exchange for them to pay all.

Senator JOHNSON. Do you know the relationship that exists between the National City and any bank in Bogota?

Mr. MATTHEWS. They have one branch there in Bogota.

Senator JOHNSON. Do you know whether or not that represents the Colombian Government?

Mr. MATTHEWS. So far as I know, it does not.

Senator JOHNSON. Do you know whether or not there is any arrangement concerning the retransfer or the transfer of gold between the banks, that government bank in Bogota and the National City Bank?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. The name of your solicitor is Mr. Bundy?

Mr. MATTHEWS. No, sir; Mr. Hackworth. He is now the legal adviser, formerly called the solicitor.

Senator JOHNSON. Who is Mr. Bundy?

Mr. MATTHEWS. Assistant Secretary of State.

Senator JOHNSON. Has he rendered an oral opinion concerning the priority or precedence of these loans?

Mr. MATTHEWS. If so, I have not heard of it.

Senator JOHNSON. You are not familiar at all with it?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Are you aware of the warning that was issued by the Department of Commerce in September, 1928, concerning Colombian loans?

Mr. MATTHEWS. Yes, Senator; a special circular.

Senator JOHNSON. Were you familiar with it at the time it was rendered?

Mr. MATTHEWS. We received copies of it shortly after it was rendered, through the commercial attaché in Bogota.

Senator JOHNSON. You followed it, I presume, closely, did you not?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. It was a matter of interest to you?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And of grave concern? As representing that particular division you were concerned with a notice of that sort that affected American investors?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. What did you do about it?

Mr. MATTHEWS. I did not do anything about it.

Senator JOHNSON. Why not?

Mr. MATTHEWS. What was there to do, Senator?

Senator JOHNSON. What did you do about the private loan?

Mr. MATTHEWS. The steps we took in the private loan were in an endeavor to straighten out a dispute between the Colombian Government and an American institution.

Senator JOHNSON. And a very deep interest was taken in that by the State Department?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. But nothing at all was done with respect to the loans that would be affected by the report that was rendered by the Commerce Department?

Mr. MATTHEWS. No loans were in default then, Senator.

Senator JOHNSON. None were in default, but it was perfectly obvious that the Commerce Department believed that they would be in default, was it not?

Mr. MATTHEWS. I would not say it was perfectly obvious. They believed the situation was not too favorable.

Senator JOHNSON. We can say that the situation was——

Mr. MATTHEWS. This was back in 1928, before the depression.

Senator JOHNSON. It was before the depression. But we may say that the situation was perilous from the standpoint of the investors, according to the circular of the Department of Commerce?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Now, we have a perilous situation of just ordinary people who are investing in the securities of Colombia concerning which you did nothing, and a situation involving the National City Bank and the Government of Colombia concerning which you did much.

Mr. MATTHEWS. In attempting to straighten out this difference of opinion.

Senator JOHNSON. Did it occur to you at any time, or to anybody in your division, so far as you are aware, that anything should be done upon the Commerce Department's report concerning the loan?

Mr. MATTHEWS. I was not in the division at that time; I was in Bogota.

Senator JOHNSON. But subsequently when you returned did you hear anything respecting it?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Nothing at all concerning the matter, I assume?

Mr. MATTHEWS. I recall nothing.

Senator JOHNSON. What are the contacts of the State Department and the Commerce Department respecting foreign securities, please?

Mr. MATTHEWS. You mean, with whom do we consult on the question of financial conditions in every country?

Senator JOHNSON. First, do you consult at all?

Mr. MATTHEWS. I believe so.

Senator JOHNSON. Do you know so?

Mr. MATTHEWS. I know I have discussed personally the financial situation with members of the Department of Commerce.

Senator JOHNSON. With what members?

Mr. MATTHEWS. Mr. Jones and Mr. Corliss.

Senator JOHNSON. Have you discussed those loans on many occasions?

Mr. MATTHEWS. No, sir; only on a few.

Senator JOHNSON. Can you recall the particular loans that you were discussing with Messrs. Jones and Corliss?

Mr. MATTHEWS. No, Senator. They had to do with Colombian or Cuban matters, because, as I said before, at the beginning, those are my only two countries.

Senator JOHNSON. Solely with Colombian and Cuban matters?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Did you ever discuss with them the Colombian circular?

Mr. MATTHEWS. No, sir. That had been issued a year and a half before I returned to Washington.

Senator JOHNSON. Since the loans in Colombia have defaulted, or some of them, have you discussed the matter with either of them?

Mr. MATTHEWS. No, Senator. I have been out of the country since the loan was defaulted—I might add, until last Friday.

Senator JOHNSON. Where were you, please?

Mr. MATTHEWS. In Central America, sir.

Senator JOHNSON. When did you leave for Central America?

Mr. MATTHEWS. December 16.

Senator JOHNSON. And were gone until—

Mr. MATTHEWS. I arrived back in Washington this past Friday.

Senator JOHNSON. Were you there on business of the department?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. During all of the time that you were in Bogota the Barco concession was a source of controversy, was it not?

Mr. MATTHEWS. During part of the time; not all of it.

Senator JOHNSON. Will you describe the part, then?

Mr. MATTHEWS. It became really active beginning in February, 1928, and from then on.

Senator JOHNSON. In February, 1928, who was the owner of the concession?

Mr. MATTHEWS. The Colombian Petroleum Co., which is 75 per cent owned by the Gulf and 25 per cent by the Carib syndicate.

Senator JOHNSON. Do you know whether or not the State Department interested itself in the Barco concession at any time prior to its acquisition by the Mellon interests?

Mr. MATTHEWS. I never heard it. It was only after its original cancellation that the State Department interested itself.

Senator JOHNSON. Do you know what was the first communication to the State Department on the Barco concession that induced them to act, or upon which they acted in relation to the Barco concession?

Mr. MATTHEWS. I imagine it must have been either a verbal or written communication some time in February, 1928; but I am not certain, Senator.

Senator JOHNSON. Do you know from whom it came?

Mr. MATTHEWS. I believe it came from—the representations came from the attorneys for the Carib Syndicate, which are Sullivan & Cromwell.

Senator JOHNSON. Do you know the individual from whom it came?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. Do you not know as a fact that the first communication that came to the State Department in reference to a request to interfere or intervene or act in conjunction with the Barco concession came from Mr. Olds?

Mr. MATTHEWS. No, Senator; I never heard of it.

Senator JOHNSON. But you can simply say from the attorneys for the Carib Syndicate, of which he was one?

Mr. MATTHEWS. I did not know until this morning that he was one, Senator.

Senator JOHNSON. I did not, either, until this morning, to tell you the fact. But it came from his firm?

Mr. MATTHEWS. It came from the firm of Sullivan & Cromwell.

Senator JOHNSON. Of which we have learned to-day he is a member?

Mr. MATTHEWS. Yes, Senator.

Mr. White tells me that at that time Mr. Olds was Under Secretary of State, sir.

Senator JOHNSON. No; I am speaking of the time after his retirement.

Mr. MATTHEWS. I am speaking of the date in February, 1928, when it was first brought up. As I recall it, he was Under Secretary then.

Senator JOHNSON. If you are not familiar with the subject matter I will ask Mr. White about it ultimately; but your only knowledge is that it came from the firm of Sullivan & Cromwell in February, 1928?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Where did you obtain that knowledge, if you please?

Mr. MATTHEWS. From the files.

Senator JOHNSON. And the particular individual from whom that letter emanated you do not know?

Mr. MATTHEWS. No, Senator. As I recall it, most of the communications are signed "Sullivan & Cromwell." I do not think it indicates the individual.

Senator JOHNSON. Do you know anything about oil legislation in Colombia?

Mr. MATTHEWS. Something.

Senator JOHNSON. Was there any discussion or controversy over the necessity for a satisfactory oil statute?

Mr. MATTHEWS. The American oil companies wanted what they termed a satisfactory oil statute. There was no discussion between our legation, or the department, and the Colombian Government. There was, however, passed in 1927 an emergency oil law. Under that oil law a certain regulatory decree was issued. This decree the various oil companies thought was unconstitutional and illegal and that its effect would seriously prejudice their interests in Colombia. I believe they approached the department, which in turn instructed the legation to ask the President if he would suspend the operation of that decree pending a supreme court decision as to its constitutionality and legality; and that decree, I believe, was finally suspended in June, 1928.

Senator JOHNSON. Did the American legation take any interest in the matter?

Mr. MATTHEWS. Yes. Under instructions from the department we took it up with the Colombian authorities.

Senator JOHNSON. That is, the Department of State instructed Mr. Caffery—was it?

Mr. MATTHEWS. Mr. Piles, who was minister at the time.

Senator JOHNSON. Mr. Piles, who was then minister, took up the matter of a satisfactory oil solution there?

Mr. MATTHEWS. No, sir. The matter of holding in abeyance the provisions of a decree which American oil companies thought was illegal and unconstitutional, until the supreme court could decide it—that is, the Colombian Supreme Court.

Senator JOHNSON. I see. Did you know Mr. Samels?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. He was the representative in Bogota of the National City Bank, was he not?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Were you ever present or did you ever know that Mr. Caffery, our minister there, told Mr. Samels not to furnish a copy of the bankers' loan contract to the Colombian Loan Board?

Mr. MATTHEWS. No, Senator. I never heard of it, and I was not present.

Senator JOHNSON. Were you present when there was any discussion concerning the loan contract of the National City Bank?

Mr. MATTHEWS. No, Senator. There was no loan contract in existence when I left Colombia.

Senator JOHNSON. Is there anything that you know from your files concerning Caffery's suggestion to Samels not to furnish a copy of the bankers' loan contract to the Colombian Loan Board?

Mr. MATTHEWS. I recall nothing, Senator.

Senator JOHNSON. Do you know whether or not the Colombian Loan Board was insistent on obtaining such a copy?

Mr. MATTHEWS. No, Senator; I never heard of it.

Senator JOHNSON. You are not familiar with the subject matter at all?

Mr. MATTHEWS. No, sir.

Senator JOHNSON. Do you know whether or not Caffery was consulted by President Olaya as to whether he should mention the requirements of the bankers in his message to the Congress?

Mr. MATTHEWS. I do not recall, Senator, that he was.

Senator JOHNSON. Do you know whether or not Caffery advised Olaya against it?

Mr. MATTHEWS. I do not remeber that he did.

Senator JOHNSON. Have you any documents or instruments or communications upon that particular subject?

Mr. MATTHEWS. I recall none.

Senator JOHNSON. Did you know that the Illinois Continental Trust Co. was a member of the banking group that made this loan?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Did you ever see anybody connected with that institution in respect to it?

Mr. MATTHEWS. I have seen Mr. Hawley Smith.

Senator JOHNSON. Did you not see Mr. Smith and talk to him about the loan?

Mr. MATTHEWS. As I recall it, most of our conversation was about Cuban matters. I believe that he touched upon Colombian conditions.

Senator JOHNSON. What time was it that you saw Mr. Smith of the Illinois Continental Trust Co.?

Mr. MATTHEWS. I have seen him several times. I do not recall the dates. I think they were within the last six months or so.

Senator JOHNSON. What time, if you can recall, was it that you saw Mr. Smith in relation to the bankers' group loan of which we have been speaking?

Mr. MATTHEWS. I do not believe we discussed that. We merely discussed the general conditions in Colombia; and I do not recall the date. As I say, it was sometime within the last six months. Mr. Smith comes down to Washington occasionally to discuss general conditions in Latin America, and knowing that I was handling Colombia and Cuba he discussed those conditions with me. The question of this loan did not come up, as I recal.

Senator JOHNSON. Do you not recall that on one occasion it did come up and you talked to him about the difficulty in carrying out the loan that was being experienced?

Mr. MATTHEWS. No, Senator. I do not think at the time of these last difficulties I had even met Mr. Smith; that is, June, 1931.

Senator JOHNSON. May and June, 1931.

Mr. MATTHEWS. I do not recall that I had met him. It is possible. I really do not recall.

Senator JOHNSON. Do you know who Mr. Jefferson, of Bogota, is?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. What position did he hold?

Mr. MATTHEWS. He represents the First National Bank of Boston, or the First National-Old Colony Trust Co. They are affiliated. I do not know which one he represents, but one of the two.

Senator JOHNSON. And they were affiliated with the National City?

Mr. MATTHEWS. They are in this group.

Senator JOHNSON. They are in this bankers' group?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Did Mr. Caffery ever report to you a conversation he had had with Mr. Jefferson in regard to the credit that was to be extended?

Mr. MATTHEWS. I do not recall any definite conversation.

Senator JOHNSON. Do you recall Mr. Caffery reporting to the Department of State that "if the President can secure the passage of a favorable oil bill the bankers will be in an excellent position"?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. You mean, you do not recall it?

Mr. MATTHEWS. I do not recall it.

Senator JOHNSON. You would not say that it did not occur?

Mr. MATTHEWS. It is possible, but I do not recall it.

Senator JOHNSON. Let me recall your conversations with Mr. Smith. Do you remember whether or not you talked to him on the 21st of May, last?

Mr. MATTHEWS. I do not recall talking to him on the 21st of May. I do not believe I knew him at that time. I may have.

Senator JOHNSON. Have you any means of fixing the date of your conversations with him?

Mr. MATTHEWS. I do not know that, Senator.

Senator JOHNSON. What is that?

Mr. MATTHEWS. I do not know that. I may possibly have a memorandum to the effect that I did talk with him, if I did, but otherwise there would be no way of fixing the date.

Senator JOHNSON. If you have conversations with any individuals respecting matters that are in the department, matters like this of the National City Bank, you make a memorandum of them subsequently, do you not?

Mr. MATTHEWS. If the conversations are important and anything new or interesting is brought out in them. Otherwise, not.

Senator JOHNSON. Did you make a memorandum of your conversation with the National City Bank—that is, with Mr. Schoepferle?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. And you considered that of importance, then?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. And immediately afterwards you made a memorandum of that conversation and filed it in the department records?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. That memorandum is there at the present time?

Mr. MATTHEWS. I believe so, Senator. I assume so; yes.

Senator JOHNSON. Is it not a fact that in the last few days you gentlemen have searched all the memoranda in regard to the transactions of the National City Bank?

Mr. MATTHEWS. Yes, sir; though I do not recall whether we specialized on that or not.

Senator JOHNSON. But for some days past, since you realized the scope of this inquiry, the members of your division have been going over all of the transactions and all of the memoranda in the State Department regarding the National City Bank loan, have you not?

Mr. MATTHEWS. As far as I know, I am the only one that has.

Senator JOHNSON. Well, you have, at any rate?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. I presume that was with the design of refreshing your recollection concerning the conditions?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Pursuing the inquiry a bit further don't you know that others have as well?

Mr. MATTHEWS. No, Senator. As far as I know, they have not. Mr. White has. I thought you meant the other members of our division.

Senator JOHNSON. I included him as a member of the division. He is the head of the division?

Mr. MATTHEWS. He is Assistant Secretary of State.

Senator JOHNSON. I beg your pardon. You do not count him a member of the division, then?

Mr. MATTHEWS. No, sir; not when we refer to the division.

Senator JOHNSON. Pardon me. I was not familiar with the ranking there. But, at any rate, Mr. White and you did?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Did you see or do you know whether or not there was a confidential memorandum circulated in the State Department suggesting that controversial questions in which the National City Co. was engaged should be dug up out of the files?

Mr. MATTHEWS. I know that there was no such memorandum circulated. I do know that at the time this Colombian business was up last year the Secretary expressed an interest to know whether the National City had had other difficulties in Latin America. The then chief of the division, Mr. Thurston, asked various members of the division to look into the files and find out if there had been any difficulties.

Senator JOHNSON. You say no memorandum was circulated. Each man had access to a copy of the request, did he not?

Mr. MATTHEWS. There was no written request, sir. It was all oral.

Senator JOHNSON. And the oral request was to go through the records and dig up what could be dug up, substantially, against the National City Bank at that time?

Mr. MATTHEWS. Not necessarily against the National City Bank.

Senator JOHNSON. I will change the form of the question, then—to dig up every controversy in which the National City Bank had been engaged.

Mr. MATTHEWS. No, Senator. Anything unusual or of interest in connection with their relations in Latin America, either favorable or unfavorable.

Senator JOHNSON. The request that was made, then, was that you go through your records and dig up everything you could find concerning the National City Bank in its Latin American relations?

Mr. MATTHEWS. Anything of any special interest.

Senator JOHNSON. Special interest to what?

Mr. MATTHEWS. Whether their relations had involved anything unusual, out of the ordinary.

Senator JOHNSON. What do you mean?

Mr. MATTHEWS. Whether they had been in any difficulties with governments and whether we had helped them out.

Senator JOHNSON. Of course, at that time you were going to dig up everything unusual that you could that would show difficulties or controversies of the National City Bank, were you not?

Mr. MATTHEWS. Yes; anything of interest.

Senator JOHNSON. For what purpose?

Mr. MATTHEWS. For the Secretary's information.

Senator JOHNSON. I know, but for what purpose did you imagine you were doing it?

Mr. MATTHEWS. He wanted the information because of the fact that these Colombian difficulties had come up at that time and he was curious to know whether they had had other difficulties.

Senator JOHNSON. You knew full well why you were doing it, did you not?

Mr. MATTHEWS. Yes; he said so.

Senator JOHNSON. And the members of your department discussed it, did they not, among themselves?

Mr. MATTHEWS. I suppose so; I do not know.

Senator JOHNSON. Did you make a very thorough search?

Mr. MATTHEWS. I did not, personally, because my countries were not involved.

Senator JOHNSON. Colombia and Cuba you thought were not involved?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. But there was a thorough search made?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. To find anything of a controversial nature in which the National City Bank had been involved?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. When was this that you were to do that work?

Mr. MATTHEWS. I think it was in May, 1931.

Senator JOHNSON. It was in May, 1931, when the National City Bank was declining to make the additional \$4,000,000 loan, was it not?

Mr. MATTHEWS. Yes; at the time the Secretary was interested in this matter.

Senator JOHNSON. And it was done during the period that there existed the controversy between Colombia and the National City Bank?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Over the granting of the loan?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. What you were doing in ordinary times was to dig up everything you could against the National City Bank to make them be good, was it not?

Mr. MATTHEWS. Not at all, Senator. The Secretary merely wanted to be informed.

Senator JOHNSON. Just to dig it up—that is what you people were doing?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Perhaps I ought not to ask you to characterize it, Mr. Matthews; but it was to dig up everything you could and inform the head of the department as to what the National City Bank had been engaged in?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Is that a usual occupation with the Department of State?

Mr. MATTHEWS. It is usual where any controversy concerning some American company or institution comes up. We naturally like to know the background of their other dealings in Latin America.

Senator JOHNSON. For utilization subsequently?

Mr. MATTHEWS. Merely for the information of those concerned.

Senator JOHNSON. To bury it mentally in one's mind? Is that what you mean?

Mr. MATTHEWS. By way of background.

Senator JOHNSON. To use it by way of argument subsequently?

Mr. MATTHEWS. Not necessarily.

Senator JOHNSON. You would not say it was to be utilized by way of persuasive argument, would you?

Mr. MATTHEWS. Not necessarily.

Senator JOHNSON. Not necessarily or at all?

Mr. MATTHEWS. I do not think that is the purpose of it.

Senator JOHNSON. At any rate, it was done?

Mr. MATTHEWS. In this instance; yes.

Senator JOHNSON. Do you know whether much was dug up against the National City Bank?

Mr. MATTHEWS. There was nothing dug up against the National City Bank. We brought up the question that a fine had been imposed in Brazil, a rather exorbitant fine, the department felt, and apparently the Brazilian Government felt so, too, because later they rescinded it. I think there was some minor question in Haiti which came up. Those, as I recall it, were the only two instances.

Senator JOHNSON. Was there a report made of the stuff that was dug up?

Mr. MATTHEWS. Those two that I have just mentioned?

Senator JOHNSON. Those were all you found?

Mr. MATTHEWS. Yes.

Senator JOHNSON. Those were reported?

Mr. MATTHEWS. Briefly.

Senator JOHNSON. In writing?

Mr. MATTHEWS. Yes; in memoranda.

Senator JOHNSON. Who made them?

Mr. MATTHEWS. Officers in our division.

Senator JOHNSON. I assumed that. Can you state what officers?

Mr. MATTHEWS. No, Senator; I do not recall. I believe Mr. Grumman was the one who made the memorandum on Haiti.

Senator JOHNSON. Were you present when Mr. White held any of his conversations with Mr. Lancaster?

Mr. MATTHEWS. No, Senator.

Senator JOHNSON. I think that is all that I desire to ask the witness; but I think Senator King has some matters that he wishes to go into.

Senator KING. You mentioned Cuba a moment ago. Are you familiar with the loan made by the Chase National Bank to Cuba?

Mr. MATTHEWS. The public works loan?

Senator KING. I do not know. They have made a number of loans, have they not?

Mr. MATTHEWS. Yes, Senator. I am familiar with the public works loan to a certain extent.

Senator KING. Are you familiar with the loans which have been made by the banks of the United States to Cuba under Machado's régime?

Mr. MATTHEWS. I believe that the public works loans are the only loans that have been made. No; I imagine there were a couple of bond issues, too, in 1927.

The CHAIRMAN. May I suggest that I think the loans he speaks of were made before Machado's time.

Senator KING. No.

The CHAIRMAN. I know there were some loans made then, and I was wondering if they were not the ones you had in mind.

Senator KING. Do you know when loans have been made to Cuba during Machado's administration?

Mr. MATTHEWS. Yes. They were floated in 1928 and 1930. In 1928 I believe it was \$20,000,000 of public works certificates. In 1930 I believe there were \$40,000,000 of public works certificates plus a short-term credit of the Chase National Bank to the Cuban Government of an additional \$20,000,000. Then there are, I believe, certain Cuban treasury warrants outstanding in the amount of about \$19,000,000.

Senator WALSH of Massachusetts. What was the total?

Mr. MATTHEWS. The total of public works loans—

Senator WALSH of Massachusetts. No; of all these loans.

Mr. MATTHEWS. \$100,000,000, roughly.

Senator KING. How many loans have been made, as shown by the State Department, to Cuba during the past 10 years?

Mr. MATTHEWS. Those three loans that I have just mentioned, and I believe two of the bond issues. I am not sure of the amount, Senator.

Senator KING. Was there not a loan made quite recently to reimburse some person or persons or corporations for a large amount of sugar that was held, and the Government took this over as security and advanced \$38,000,000 to the bank because it had advanced that to the sugar companies which they largely owned and controlled?

Mr. MATTHEWS. No, Senator. I believe they gave them \$38,000,000 in what they called sugar bonds. There was no cash.

Senator KING. I know that. Who guaranteed the bonds and by whom were they issued?

Mr. MATTHEWS. By the Cuban Government.

Senator KING. And they called them sugar bonds?

Mr. MATTHEWS. Secured by the sugar.

Senator KING. \$38,000,000?

Mr. MATTHEWS. Yes, Senator; given to the holders of that sugar.

Senator KING. There was a bond issue of \$42,000,000, was there not?

Mr. MATTHEWS. That was the nominal amount originally stated, but I thought it was \$38,000,000 that actually was issued.

Senator KING. Did not \$4,000,000 go to some person or persons or organizations for the purpose of making the loan or in consummating the loan?

Mr. MATTHEWS. Not that I know of; no, sir.

Senator KING. Is it not a fact that Mr. Machado or some of his associates representing the Government had \$4,000,000 of that bond issue?

Mr. MATTHEWS. Not that I know of, Senator; I never heard of it.

Senator KING. Do you read Spanish?

Mr. MATTHEWS. Yes, Senator.

Senator KING. Will you kindly read that, [handing the witness a paper] and tell me if the translation that I have here is accurate?

Senator WALSH of Massachusetts. Do you mean that a bonus went to Machado?

Senator KING. I want to find the facts. I do not want to make any statement that is not warranted by the facts.

Mr. MATTHEWS (after comparing the original statement with the translation thereof). The translation is correct, Senator.

Senator KING. Do you know the aggregate amount of the loans made by the Chase National Bank to Cuba that took in its affiliates?

Mr. MATTHEWS. \$100,000,000.

Senator KING. Was not the State Department notified that the Machado government was merely de facto not de jure and warned against making loans?

Mr. MATTHEWS. Notified by whom, Senator?

Senator KING. Persons interested in the welfare of Cuba.

Mr. MATTHEWS. It is possible; I do not know.

Senator KING. I wish you would look into the files, and if it is not against the interest of the public and the public welfare I would like to have you bring that information here.

Mr. MATTHEWS. Very well, Senator.

Senator KING. \$100,000,000 had been loaned by the Chase National and its affiliates in Cuba?

Mr. MATTHEWS. That is my recollection. I have not been looking up Cuba recently. I have just gotten back.

Senator KING. Do you know who the affiliates were?

Mr. MATTHEWS. I think the Continental & Illinois Trust was one affiliate and the Bank of America was the other. Whether they are affiliates in the total amount or not I am not sure; they were in a portion of it.

Senator KING. Was the last loan to which you referred and denominated the "sugar loan" a part of that \$100,000,000?

Mr. MATTHEWS. No, Senator.

Senator KING. Then that is in addition to the \$100,000,000?

Mr. MATTHEWS. Yes, Senator.

Senator KING. A considerable part of the money which was loaned to Cuba of the \$100,000,000 was used for military purposes, was it not, in the maintenance of the army?

Mr. MATTHEWS. As I understand it, it was used for public works.

Senator KING. Have you any knowledge as to the purposes to which it was applied?

Mr. MATTHEWS. The purposes for which it was applied, I believe, were public works, the central highway, and the capitol.

Senator KING. The purpose for which it was ostensibly made was for public purposes; but do you know whether or not it was all applied to the purposes for which it was ostensibly made?

Mr. MATTHEWS. I would have to look up the official documents to find out.

Senator KING. The capitol cost \$20,000,000?

Mr. MATTHEWS. I do not know the cost of the capitol, Senator.

Senator KING. There were many protests to this Government, were there not, as well as to the Cuban people themselves, against the waste and extravagance in that construction?

Mr. MATTHEWS. I have heard it mentioned; but I think the protests originated before I came into the department, and I am not familiar with them.

Senator KING. You have files of this newspaper, have you not?

Mr. MATTHEWS. We have some files. I do not think they are complete.

Senator KING. What is the date of the paper that I have handed to you?

Mr. MATTHEWS. July 6, 1928.

Senator KING. Machado was, of course, in control when?

Mr. MATTHEWS. He was President at that time; yes, sir.

Senator KING. When was the constitution changed?

Mr. MATTHEWS. It was amended in 1928.

Senator KING. Prolonging his term?

Senator SHORTRIDGE. What was the term of office as of that time?

Senator KING. My recollection is that the constitution which was adopted a number of years ago limited it to four or six years.

Mr. MATTHEWS. His term, I believe, was—he was permitted to run for reelection for a period of six years.

Senator KING. We will go into that a little later.

I ask you if you have a copy of this publication [indicating].

Mr. MATTHEWS. I am not sure we have that issue.

Senator WALSH of Massachusetts. You have very extensive files with regard to conditions in Cuba, have you not?

Mr. MATTHEWS. Yes, sir; we have a file on political conditions in Cuba and practically all other countries.

Senator WALSH of Massachusetts. But you particularly watch Cuba because of the special relationship which we have under the Platt amendment?

Mr. MATTHEWS. We watch all countries.

Senator WALSH of Massachusetts. Have we not got a different obligation toward Cuba than toward any other country?

Mr. MATTHEWS. Yes; our relations are different.

Senator KING. I shall not pursue this until I give you an opportunity to find the paper from which this was taken, and then I shall desire to interrogate you further.

Mr. MATTHEWS. You have no additional copy of that, have you, Senator?

Senator KING. No; I have not.

Senator WALSH of Massachusetts. Do you not think it ought to appear in the record that these loans to Cuba were passed upon by the State Department before they were made and approved? Is not that true?

Mr. MATTHEWS. I say I have not looked up the Cuban financial file, and I can not answer that.

Senator WALSH of Massachusetts. Is not that the policy? Do you mean to tell us that Cuba can go out and borrow all the money she wants without the State Department having knowledge of it and giving it its O. K.?

Mr. MATTHEWS. She can not.

Senator WALSH of Massachusetts. That is what I thought. So, therefore, in this particular case she must have had the State Department's O. K.; otherwise Cuba was not complying with her agreement.

Mr. MATTHEWS. Yes.

The CHAIRMAN. Do you know anything about the loan to Cuban sugar producers secured by sugar?

Mr. MATTHEWS. I think that is what Senator King had reference to.

The CHAIRMAN. I think that the loan the Senator spoke of is quite different from an individual bank making a loan to Cuba—

Mr. MATTHEWS. You mean, to individuals in Cuba by banks?

The CHAIRMAN. Yes; individuals and corporations. Do you know anything about that?

Mr. MATTHEWS. No, sir.

The CHAIRMAN. Were those loans ever submitted to the State Department?

Mr. MATTHEWS. No, sir. Private loans from banks to private individuals or corporations in Cuba are not.

The CHAIRMAN. Have you any information as to the extent of those loans?

Mr. MATTHEWS. I have not, sir.

The CHAIRMAN. You can not find them in the State Department?

Mr. MATTHEWS. I do not believe so, sir. They are a private banking transaction, and we have no records of them.

Senator KING. Was this sugar loan a private transaction?

Mr. MATTHEWS. No, sir; it was public.

Senator KING. And you would have knowledge of that?

Mr. MATTHEWS. Yes, Senator.

Senator KING. And you would have knowledge of the records concerning the \$100,000,000 loan?

Mr. MATTHEWS. Yes, Senator.

Senator KING. Is it not a fact that a loan of approximately \$80,000,000 was made with the approval of Secretary Kellogg?

Mr. MATTHEWS. That I do not know, sir.

Senator SHORTRIDGE. A Government loan, Senator?

Senator KING. To the Cuban Government under the Machado régime.

Mr. MATTHEWS. I was trying to think under whose administration it was. There was a loan of \$20,000,000 floated in 1928 and I believe the remainder in 1930.

The CHAIRMAN. Has any part of that \$60,000,000 been paid?

Mr. MATTHEWS. A lot of it is still outstanding, including the \$20,000,000 short-term credit.

Senator SHORTRIDGE. In the shape of Government bonds?

Mr. MATTHEWS. A part of it in public works serial certificates and part of it in public works gold bonds.

The CHAIRMAN. \$20,000,000 of the former?

Mr. MATTHEWS. And \$40,000,000 of the latter, approximately. I think of the \$20,000,000 something like six and a half million have been amortized.

Senator SHORTRIDGE. The others are outstanding, presumably.

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. In default?

Mr. MATTHEWS. No, Senator.

Senator SHORTRIDGE. What are they selling for on the market, if sold at all?

Mr. MATTHEWS. Since my return from abroad, sir, I have not looked up the quotations, Senator.

Senator WALSH of Massachusetts. Cuban bonds, Senator, have a very good market in this country because of the fact that the State Department has to pass upon the adequacy of the revenues of the country to meet these bonds. Therefore, they are considered usually a good investment.

Senator KING. Is it not a fact, Mr. Matthews, that quite recently, early last year, part of the obligation fell due, to the extent of \$6,000,000, and was unpaid?

Mr. MATTHEWS. No, Senator; not that I know of. None of it is in default.

Senator KING. Did they arrange for the payment of it by issuing short-time loans or additional bonds?

Mr. MATTHEWS. \$20,000,000 of this \$100,000,000 was in the form of a short-term banking credit and that has been extended from time to time.

Senator KING. They could not meet the obligation and the Chase National Bank and its affiliates extended the time?

Mr. MATTHEWS. I would not say they could not meet it, but Chase and its affiliates did extend the period. It was originally intended that that \$20,000,000 short-term credit should be redeemed by the further issue of \$40,000,000 of gold bonds, but in view of the market conditions naturally the \$40,000,000 was never issued.

Senator KING. At any rate, when the bonds matured they were not paid—

Mr. MATTHEWS. It was not a question of the bonds maturing, Senator.

Senator KING. What was the \$20,000,000 used for?

Mr. MATTHEWS. For public works; for completing that highway.

Senator KING. Was that to meet an antecedent loan?

Mr. MATTHEWS. No; for continuing work.

Senator KING. Was that a part of the \$100,000,000?

Mr. MATTHEWS. Yes, Senator.

Senator KING. And that \$100,000,000 was a bond issue?

Mr. MATTHEWS. No; only part.

Senator KING. \$80,000,000 was a bond issue?

Mr. MATTHEWS. \$60,000,000. There were two bond issues; \$20,000,000 of public works certificates and \$40,000,000 of public works gold bonds.

Senator KING. When was the last \$20,000,000 floated?

Mr. MATTHEWS. In the middle of 1930, at the same time that the \$40,000,000 of public works bonds were floated.

Senator KING. Was not a part of that utilized in meeting the interest and amortization charges?

Mr. MATTHEWS. No, sir; there was no amortization charge due until this December.

Senator KING. Was not part of it used for interest charges; to meet interest charges?

Mr. MATTHEWS. I do not believe so.

Senator KING. Is it not a fact that they were \$6,000,000 in default in interest, and that was paid by additional credits which were extended by the Chase Bank and its affiliates?

Mr. MATTHEWS. No, Senator; I do not believe so.

Senator KING. I will be glad if you will make yourself thoroughly familiar with those facts.

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. You say there was \$100,000,000 loaned to Cuba; is that right?

Mr. MATTHEWS. A total of several loans.

Senator SHORTRIDGE. Over what period of time?

Mr. MATTHEWS. Between 1928 and 1930.

Senator SHORTRIDGE. Were they technically Government loans or borrowings?

Mr. MATTHEWS. Yes, sir.

Senator SHORTRIDGE. And how many millions of bonds were issued?

Mr. MATTHEWS. A total of \$60,000,000—\$20,000,000 of public works serial certificates and \$40,000,000 of public works gold bonds.

Senator SHORTRIDGE. Were those bonds put upon the public market here?

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. And were they disposed of—purchased?

Mr. MATTHEWS. I do not know whether they were in their entirety, but they were offered.

Senator SHORTRIDGE. Do you know how many, if any, are still held by any of the banks mentioned?

Mr. MATTHEWS. I do not know, Senator.

Senator SHORTRIDGE. Do you know whether or not any of those bonds are still in the vaults or in the possession of the banks mentioned?

Mr. MATTHEWS. I have heard it said that some of them are, but I do not know for a fact.

Senator SHORTRIDGE. Do you carry in your mind what they were sold for?

Mr. MATTHEWS. No, Senator.

Senator SHORTRIDGE. What rate of interest did they bear?

Mr. MATTHEWS. Five and a half per cent, I believe.

Senator SHORTRIDGE. What term—10, 20, 30, 40 years?

Mr. MATTHEWS. I am sorry, Senator, but I can not answer that definitely.

Senator SHORTRIDGE. The other \$40,000,000 were what you term short-term credits?

Mr. MATTHEWS. Yes, Senator; \$20,000,000 of it was a banking advance and \$20,000,000 of it was in the form of Treasury warrants issued in payment of this highway work.

Senator SHORTRIDGE. They were obligations of the Government?

Mr. MATTHEWS. Of the Cuban Government; yes, sir.

Senator SHORTRIDGE. And in answer to Senator King you say you are not aware that they are in default?

Mr. MATTHEWS. Yes, Senator; I was not aware of it.

Senator SHORTRIDGE. Was there any failure or inability to pay, and a renewal of the period of payment?

Mr. MATTHEWS. The period of the \$20,000,000 banking credit has been extended.

Senator SHORTRIDGE. They may not have defaulted?

Mr. MATTHEWS. It was contemplated when it was put out—

Senator SHORTRIDGE. Let us get at it in a simple way.

Mr. MATTHEWS. It was contemplated when that \$20,000,000 credit was granted it would be retired by a further flotation of \$40,000,000 gold bonds. But market conditions rapidly grew worse, and of course, they were unable to float an additional \$40,000,000.

Senator SHORTRIDGE. To float them where?

Mr. MATTHEWS. In the United States, and possibly in Europe. Mostly here.

Senator SHORTRIDGE. And so, not having the money to take up this \$20,000,000, what was then done?

Mr. MATTHEWS. The period was extended.

Senator SHORTRIDGE. You do not term that a default?

Mr. MATTHEWS. No, sir. I am not a banker, but I believe it is customary to extend outstanding banking credits.

Senator SHORTRIDGE. And, as the Senator developed, because of our relationship with Cuba, somewhat due to the Platt amendment—you understand what that is, do you not?

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. We are concerned with the public debt of Cuba, are we not?

Mr. MATTHEWS. Yes, sir. Article 2 of the treaty bears on that.

Senator SHORTRIDGE. And you understand that it comes within our legal right, if you please, and duty to concern ourselves with the projected Cuban Government loans?

Mr. MATTHEWS. Yes, Senator.

Senator SHORTRIDGE. Whether those bonds are to be sold in America or elsewhere, if bonds are to be issued?

Mr. MATTHEWS. Yes, sir.

Senator WALSH of Massachusetts. The loans must all be made in America under the treaty. They can not make loans in foreign countries.

Senator SHORTRIDGE. Does it go that far, Senator?

Senator WALSH of Massachusetts. Yes.

Senator SHORTRIDGE. That is all. I just wanted to get the situation clearly in my mind.

Senator KING. If, as you have answered Senator Shortridge, we are concerned in the loans, do you not think that the State Department, representing the Government, should be concerned in the pur-

pose for which the loan is made and the application of the loan when it is obtained, or the money obtained by the loan?

Mr. MATTHEWS. I do not think that is specified in the treaty, Senator.

Senator KING. You do not interpret the treaty as imposing that obligation upon the United States?

Mr. MATTHEWS. I would rather study the treaty. I do not, off-hand; no, sir.

Senator KING. Is it not a fact that protests came from many of the representative citizens of Cuba against the wasteful extravagance—I will not use any stronger term—of the Machado government; that those protests were unheeded by the State Department and loans were approved and money continued to be wasted, against the protests of many of the citizens of Cuba, and that that precipitated a revolution, which has been going on for more than a year?

Mr. MATTHEWS. No, sir; I do not recall the protests.

Senator KING. You do not recall any protests?

Mr. MATTHEWS. No, sir. I was not here at the time the loans were issued.

Senator KING. Do you have any statement made by myself in writing to the State Department against certain policies, with the statement that if they were continued it would eventuate in revolution?

Mr. MATTHEWS. Under what date, Senator?

Senator KING. More than a year ago.

Mr. MATTHEWS. I do not recall seeing it, Senator.

Senator KING. There have been revolutions there, have there not?

Mr. MATTHEWS. There was a revolution last August.

Senator KING. And it is still in progress, intermittently?

Mr. MATTHEWS. I would hardly call it a revolution.

Senator KING. Was not the revolution very largely due to the feeling upon the part of the Cuban people as evidenced by their communications and the communications between the State Department and our two ambassadors, the one from Illinois preceding Mr. Guggenheim, who is there now, showing that the protests were being made against the Machado Government and the expenditures would result in a revolution?

Mr. MATTHEWS. No, sir.

Senator KING. I wish you would look into the files; and I would be glad to have you come back to-morrow.

Mr. MATTHEWS. Yes, sir.

Senator SHORTRIDGE. What was the fact? When they got the money was it expended in the way indicated, or—

Senator KING. I do not care to testify, Senator. I have some information, but I am not a witness and I do not feel like projecting my views into this record.

Senator JOHNSON. Will you state, please, unless you have already done so, when the order was received from the Secretary to dig up what you could in relation to the National City Bank's transactions?

Mr. MATTHEWS. As nearly as I can recall, it was in May, 1931, but I do not know the exact date.

Senator JOHNSON. Was that before you made your trip to New York?

Mr. MATTHEWS. I do not recall that definitely. I believe it was after that.

Senator JOHNSON. Have you any way of fixing the date?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. How can you fix it?

Mr. MATTHEWS. By those two memoranda which I mentioned drafted by people in the department, concerning Brazil and the troubles in Brazil and Haiti of the National City Bank.

Senator JOHNSON. Those are troubles, you say, that the National City Bank had. What I am endeavoring to fix is the date when you went through the records to ascertain what you could concerning the National City Bank.

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. That was in May, 1931, sometime?

Mr. MATTHEWS. Yes, sir.

Senator JOHNSON. Then I will ask you—and, as I understand you, you are uncertain about it—whether that was before or after you went to New York City.

Mr. MATTHEWS. I believe it was after, but I am uncertain.

Senator JOHNSON. Can you fix that date?

Mr. MATTHEWS. Yes, Senator.

Senator JOHNSON. Will you fix it please, at your convenience, and give it to the clerk here?

Mr. MATTHEWS. Yes, sir.

(Date of trip to New York City, May 18, 1931, and was prior to the date of the memorandum to the Secretary regarding the National City Bank.)

Senator JOHNSON. That is all.

(The chairman submitted the following correspondence to be inserted in the record at this point:)

JANUARY 14, 1932.

HON. REED SMOOT,

*Chairman, Senate Committee on Finance,  
United States Senate.*

MY DEAR SENATOR SMOOT: In compliance with the written request of the Bolivian minister to the United States, received on January 11, 1932, I inclose herewith a copy of a memorandum which the Government of Bolivia desires "forwarded to the chairman of the Finance Committee of the United States Senate for incorporation in the minutes of the proceedings of that committee regarding the flotation of foreign bonds in the United States."

Sincerely yours,

HENRY L. STIMSON.

MEMORANDUM—LEGACION DE BOLIVIA, WASHINGTON

The Bolivian Government views with great concern the discussions which have recently been proceeding before the Finance Committee of the United States Senate, and wishes to state that it has never in any way questioned the validity of its obligation or its intention to eventually liquidate the same. The present unhappy economic situation of the country has required a temporary suspension of the payment of interest and sinking fund on these bonds, but such economic difficulties must of necessity correct themselves when an improvement in world economic conditions takes place and at that time the Bolivian Government has every intention of resuming its payments. The Bolivian Government considers any suggestion to the contrary as unfriendly and damaging to the integrity of its credit position which in the past has always scrupulously maintained.

WASHINGTON, D. C., January 8, 1932.

JANUARY 14, 1932.

Hon. REED SMOOT,  
*Chairman, Senate Committee on Finance,  
 United States Senate.*

MY DEAR SENATOR SMOOT: I inclose herewith a copy of a note dated January 13, 1932, from the ambassador of Chile, asking that there be transmitted to you as chairman of the Senate Finance Committee the formal request of the Chilean Government for a thorough inquiry as to whether any special premiums, commissions, or favors of any kind were given to any of the Chilean officials in charge of, or under whose authority, negotiations were conducted for the flotation of loans in the United States.

Sincerely yours,

HENRY L. STIMSON.

JANUARY 13, 1932.

His excellency HENRY L. STIMSON,  
*The Secretary of State, Washington, D. C.*

EXCELLENCY: In the course of the investigation into the floating of Latin-American bonds in the New York market, now being conducted by the Finance Committee of the United States Senate, testimony has been received to the effect that it was customary and necessary to pay bribes to officials of Latin-American Governments in order to successfully negotiate with them for loan contracts.

In view of the very general nature of the accusation, which injures the traditional pride of my country in the honesty of its officials, and due to the fact that on the previous occasion when I had the honor to serve as ambassador before your excellency's Government, it was my duty to sign four loan agreements with banking houses of New York City. I have been instructed to respectfully ask that your excellency be good enough to transmit to the chairman of the Finance Committee of the United States Senate the formal request of my government for a thorough inquiry as to whether any special premiums, commissions, or favors of any kind were given to any of the Chilean officials in charge of, or under whose authority negotiations were conducted for the flotation of loans in the United States.

I avail myself of this opportunity to reiterate to your excellency the assurances of my highest consideration.

MIGUEL CRUCHAGA.

(Witness excused.)

### TESTIMONY OF FRANCIS WHITE, ASSISTANT SECRETARY OF STATE, WASHINGTON, D. C.

(The witness was previously sworn by the chairman of the committee.)

The CHAIRMAN. You are Assistant Secretary of State, are you not?

Mr. WHITE. Yes, sir.

The CHAIRMAN. How long have you held that position?

Mr. WHITE. Since the end of April, 1927.

Senator, availing myself of the statement which you made to the chairman of the committee at the beginning of this afternoon's session, I should like to make a statement regarding this matter, and then, of course, I should be very glad to answer any questions whatsoever.

Senator JOHNSON. I am very glad to have you do anything that you wish.

The gentleman, Mr. Chairman, wishes to make a statement, and then subsequently I will be permitted the appropriate cross-examination. But before you begin, let me ask you this. This morning I requested a certain communication passing between Mr. Caffery

at Bogota and the department. There was some little debate concerning it. I will ask you whether or not you have that with you:

Mr. WHITE. I did not bring it with me.

Senator JOHNSON. Do you decline to produce it?

Mr. WHITE. Yes, sir.

Senator JOHNSON. And the reason for declining to produce it is what?

Mr. WHITE. Is that one can not conduct foreign relations, publishing all the correspondence between one's agents abroad?

Senator JOHNSON. I asked you not for all of your correspondence with your agents abroad, but I asked you for a particular dispatch from the United States minister at Bogota relating to the Barco concession to the Mellon interests in this country; and that and that alone is what I asked. Do you decline to produce it?

Mr. WHITE. That I shall have to take under consideration, Senator.

Senator JOHNSON. But that is exactly what I asked this morning, and that alone.

Mr. WHITE. I have not had a chance to make any consultation, Senator.

Senator SHORTRIDGE. What is that?

Mr. WHITE. I have not had an opportunity to consult with the Secretary of State.

Senator JOHNSON. But you decline, offhand?

Mr. WHITE. As I told the Senator this morning, all the correspondence is at the disposal of the Senator and of any other Senator, at the Department of State, if he wishes to examine it under the confidential rule.

Senator JOHNSON. And I told you then that I declined absolutely as in derogation of the position of a United States Senator to look at your correspondence confidentially and be precluded thereafter from discussing it either with my fellows who are United States Senators, or with the people of the United States. That was understood this morning.

Mr. WHITE. Any other Senator, of course, might see the correspondence as well, Senator.

Senator JOHNSON. But they could not discuss it at all, nor could they do anything about it, because they would see it confidentially. I decline absolutely. I should consider that I was a very peculiar character of Senator if I accepted any such proposition as that. But that is neither here nor there. What I asked for was a specific dispatch that came from Mr. Caffery, as our United States Minister at Bogota, to the Department of State in which Mr. Caffery spoke of the Barco concession that was accorded ultimately to the Mellons, and I am asking you the question, Do you decline to produce that dispatch?

Mr. WHITE. The dispatch was quoting the President of Colombia, giving the views of the President of Colombia.

Senator JOHNSON. I don't care whom it quoted. Do you decline to produce it, or will you produce it?

Mr. WHITE. That I will take under consideration. I think my statement will probably stand.

Senator JOHNSON. That you will not produce it to the committee here?

Mr. WHITE. Yes.

Senator JOHNSON. I wanted a definite conclusion upon that proposition.

Mr. WHITE. All right.

Senator SHORTRIDGE. I wish to say that it is very easily conceivable there might be communications passing between our minister in a given country and our Government which neither my colleague nor any other Senator would deem it wise to make public. That is a proposition I am sure we are all agreed upon, that it might be unwise to make it public.

Senator JOHNSON. If you are addressing me—

Senator SHORTRIDGE (interposing). No; I was not addressing you, but making an observation.

Senator JOHNSON. May I say to you in response to that observation that there is no communication from a minister, consul, or other representative of the people of the United States at Bogota concerning a private concession to the Mellon family that in my opinion should be held confidential from the American people.

Senator SHORTRIDGE. That might well be so. We do not disagree. But I made a general observation that many questions put to this and other witnesses seemed to call for communications from our ministers to foreign governments, or our representatives to foreign governments, and that it was quite possible some or all of them should not be made public. But we will pass on.

Senator JOHNSON. In answer to my colleague I will say that the whole problem, it seems to me, is whether there is some sacrosanct character in the Mellon family that precludes the United States Senate or the people of the United States from knowing what has been done about a Mellon concession by a United States official at Bogota in conjunction with the State Department of the United States.

Mr. WHITE. I can answer that. Nothing was done.

Senator SHORTRIDGE. I will say to my colleague now that I think he is quite as familiar with the Mellon family or those corporations, and perhaps more, than I am. I am merely making the general observation that I thought we would all agree to: That this communication which the Senator asks for may be very important. I think I should like to see it. And it may be of vast importance that it be put into this record. I think you should bring it to us so that we may see it.

Mr. WHITE. I shall be glad to show it to you in confidence.

Senator SHORTRIDGE. Well, I would say the same as my colleague, that upon seeing it if I thought it should go into the record I certainly would urge that it be put in the record and not treat it as confidential.

Senator JOHNSON. Well, Mr. White, if you desire to make a statement on the particular matter under investigation by this committee, I shall be very glad for you now to do so.

Senator JOHNSON. Mr. White, as I understand, you want to make a statement.

Mr. WHITE. Yes, Senator.

The CHAIRMAN. You may proceed.

Mr. WHITE. The President elect of Colombia was in this country during 1930. He was in New York at that time and conducted negotiations with a group of New York bankers for a credit to his Government.

This was a part of the program which President Olaya announced when he ran for the presidency in Colombia in 1929. His program then was to try to solve the financial difficulties of his country. There was a large floating debt outstanding. He wanted to bring order into the finances of Colombia, and, as he said, to settle on a basis of justice and equity and their merits the outstanding claims against his Government.

In pursuance of this purpose he undertook negotiations with American bankers in New York and concluded an agreement on June 30, 1930. A copy of that agreement has already, I believe, been placed in the record of this committee.

The Department of State was not consulted regarding that issue. It was not an issue of bonds to the public. They were short-term credits.

The American minister to Colombia was in this country on leave at the time and was assigned to accompany the President elect throughout his stay in the United States, as is usual in such cases, he and certain protocol officials, and military and naval aides.

At the request of the President elect of Colombia the American minister accompanied him and was present during those negotiations, but did not take part therein. This Government had no interest in the matter whatsoever. It was not consulted and had nothing to do with the contract or the terms thereof.

Subsequently, on October 25, 1923, as I recall it, an additional arrangement was made—

Senator SHORTRIDGE (interposing). Did you mean 1923?

Mr. WHITE. On October 25, 1930, I meant. Pardon me.

Senator SHORTRIDGE. All right.

Mr. WHITE. An additional arrangement was made whereby a further \$4,000,000 would be issued. The agreement of June 30, 1930, provided for various issues of credit. I won't go into the details of them. They are before the committee. But for the sake of clarity I will point out that there was one issue for \$3,000,000, and one for \$4,000,000, and one for \$5,000,000, or a total of \$12,000,000.

It was provided in the agreement that the bankers could refund those credits by a loan of \$20,000,000 if market conditions permitted, or if not, that they would make an additional advance of \$4,000,000, bringing the total up to \$16,000,000.

The Department of State, as I have already said, was not consulted and had no concern in the matter. We did not pass upon the loans as a business proposition, and in the case of bankers' credits the department is not consulted. The Department of State, of course, did not ask that the credit be extended to Colombia. It was the President elect of Colombia who came up to this country and negotiated an agreement which was concluded in June of 1930.

In March of 1931—

The CHAIRMAN (interposing). Was the State Department asked anything in regard to the negotiations about that loan?

Mr. WHITE. No, sir.

The CHAIRMAN. You did not take part in the negotiations at all?

Mr. WHITE. No, sir.

The CHAIRMAN. Proceed.

Mr. WHITE. I will say that in the agreement it was provided Colombia would take certain fiscal measures to strengthen its credit

position, and on the basis of that this advance of \$4,000,000, raising the total from \$12,000,000 to \$16,000,000, was then to be made.

In March of 1931 the Department of State received a telegram from the American minister in Bogota, saying that the President of Colombia was very much disturbed over the fact that, having complied with the requirements of the agreement so far as he was concerned, and expecting the \$4,000,000 to be paid over, the bankers were holding up the turning over the \$4,000,000 to him until a gold-mining claim of British interests should be settled. The President of Colombia had made his financial arrangements and counted on getting the money at that time, and was very much disturbed not to get it.

When I received that telegram I telephoned to New York, to Mr. Winston, of counsel for the National City Bank, and told him of the point of view expressed to the American Minister in Bogota by the President of Colombia. He promised to look the matter up. The next day, not having heard from him, I called up again and found he was out of town, and I spoke with Mr. Lancaster, and my subsequent conversations were with him.

I repeated to Mr. Lancaster what I had said to Mr. Winston. He promised to look the matter up, and a day or so thereafter he telephoned me from New York to say that there had been a mistake, that this condition should not have been raised with regard to that particular credit of \$4,000,000, and I mean the credit which raised the total amount from \$12,000,000 to \$16,000,000, but should be in connection with a second one raising it from \$16,000,000 to a total of \$20,000,000, and that the \$4,000,000 was being paid on that day.

The reason that Mr. Lancaster gave for the bankers taking that stand in this matter was that one of the conditions precedent to extending the last \$4,000,000 credit, which would complete the \$20,000,000, was that the bankers should successfully expand their group. They wanted to expand the group not only to take care of the last \$4,000,000 credit, but also for eventually financing the bond issue to refund all the short-term credits. And for that reason they took in as associates with them Lazard Bros. of London, and their corresponding house in Paris, Lazard Freres. And it was these latter that made it a condition in coming into the group that this claim should be settled. However, he said that the \$4,000,000 then in question, raising the total from \$12,000,000 to \$16,000,000, was being paid that day.

That ended the matter so far as we were concerned. The Department of State took the matter up with the bankers, not as a banking matter with which we had any connection whatsoever, but as a subject about which a possible misunderstanding might arise, in fact had arisen, between a friendly foreign government and an American institution; it took the matter up and expressed the point of view of the foreign government as explained to us, in the thought that they might take the matter under consideration with a view to an orderly and satisfactory arrangement.

The matter did not then come before us again until May of 1931. On May 13, 1931, we received a telegram dated May 12, in which the minister at Bogota stated that the President of Colombia again was very much concerned because he felt that he had complied with the bankers' conditions for paying over the remaining \$4,000,000.

namely, that the Colombian Congress had passed the organic budget law, and the organic customs bills was then before the Congress and there was no difficulty anticipated regarding it, for it was expected it would be passed shortly; and the President of Colombia had stated his readiness to proceed with the organization of the customs administration and that meant to put it on an efficient basis; and the President of Colombia had indicated his willingness to put into effect by executive decree the principles of the bill regarding the establishment of a comptroller's office, and the budget also he had balanced in accordance with the agreement made with the bankers. That they had come to an agreement regarding the balancing of the budget, but he stated that the bankers represented to him that the receipts of the Government for the first quarter of the year had fallen below estimates, and they therefore found that the budget was out of balance and wanted reductions made in order to balance it.

The CHAIRMAN. Was that on account of an error in the estimate or on account of lack of business?

Mr. WHITE. Well, if I recall correctly, it was on account of a difference in the estimate. Whether it was on account of an error or not I do not know.

The CHAIRMAN. Proceed.

Mr. WHITE. Again I telephoned to Mr. Lancaster. Again the department's interest in the matter was not from the banking end, not a banking matter, I mean, but on account of a dispute that had arisen between a foreign government and an American institution regarding the carrying out of an agreement concluded many months before. Mr. Lancaster said that he would look into the matter.

He called me back, and I think it was the next day, stating that the budget was out of balance by about \$1,440,000, and that therefore the bankers had asked the Colombian Government to make a reduction. He stated that this was not new matter that had just arisen, that the balancing of the budget was the corner stone of the agreement.

This new point of the bankers was cabled to the American Legation in Bogota for the information of the President of Colombia. On the 16th day of May the Secretary of State was spending the week-end at his Long Island home, and he telephoned to Mr. Lancaster regarding this matter. On that same day a telegram was received from the legation in Bogota stating that President Olaya said he had an agreement with the bankers for the balancing of the budget at ₡51,000,000 a year, and that this had been done, in fact, that the expenses had been cut even to ₡49,000,000. He therefore felt that he had complied with his obligation. He said that no government could conduct its affairs if after an agreement was made adjustments had to be made each month in accordance with any change in the budgetary status of the country.

The Secretary of State asked that Mr. Matthews would bring this telegram to New York for his information, and a copy of the loan agreement, in order that he might have them in order to discuss the matter with the officials of the bank on the following Monday, May 18.

On that day Mr. Lancaster called on him, and the Secretary took the matter up, discussed the matter with him in the light of this information. The question arises here: Why was the Secretary of

State interested in this matter? He was interested in it not as a loan contract or a loan proposal. There was no question of giving any new money to the Republic of Colombia, but again, as in the incident in March, there was a disagreement between a foreign government and an American institution regarding the carrying out of any agreement signed some months previously. Therefore the Secretary of State naturally took an interest in the matter, to explain the point of view of the foreign government as set forth by us, discussed the matter with a representative of the American institution in an endeavor to see if the matter could not be straightened out. He would be derelict in his duty if he did not do so. He is charged with the conduct of foreign affairs, and particularly relations with foreign governments, and it was to the interest not only of the bank but of all American interests down there that American institutions should have a reputation of living up to their contracts, and if a foreign government felt that there was any question to the contrary that the matter should be considered by them and the point of view of the foreign government regarding the matter be explained to the American institution in order that the misunderstanding might be straightened out to the satisfaction of both.

Mr. Lancaster returned to the National City Bank and discussed the matter with the officials thereof. There was some misunderstanding apparently regarding the matter, regarding what agreement was referred to, and regarding the budgetary figures and certain information as to which had been supplied by the Colombian Government, as I recall it, and telegraphed up to us.

Mr. Lancaster thereafter telephoned and asked whether Mr. Matthews would go to the National City Bank and try to straighten out this misunderstanding. Mr. Matthews went. Why? Because he was asked to come by officials of the bank to straighten out this matter. Which he did. He exhibited our copy of the agreement, made between the bank and the Colombian Government on some date in October of 1930. And while he was there he also discussed the budgetary figures. He was not attempting to show the bank how to conduct its business, or to tell them what they should do, nor was he entering into the matter from the point of view of the loan, but throughout the Department of State and all its officials were acting in behalf of composing a misunderstanding between a foreign government and an American institution in the matter of the execution of an agreement signed some time previous thereto and with which the State Department had had no connection.

A few days thereafter Mr. Lancaster, and I think about May 23, 1931, telephoned to the Secretary of State and read to him the instructions which the bank was sending to its representatives in Bogota, a rather long instruction, asking them to explain to the President of Colombia that they were not endeavoring to raise any flippant objections, that they were not endeavoring to put any difficulties in his way, and that they wanted to cooperate with him to the fullest possible extent, but that in view of what he, President Olaya, had said, they were willing to waive their objections regarding the balancing of the budget, and would pay over the remaining \$4,000,000.

The money, however, was not paid over. We subsequently learned that there were negotiations between the representatives in Bogota of the bankers and the Colombian Government. On June 19, Mr. Lancaster telephoned to me from New York to say that he would be in Washington the following week and would like to discuss with me one or two matters of public business other than the Colombian matter. He did not mention the Colombian matter. I took the occasion to ask him the status of the matter of the last \$4,000,000 credit. He said that the delay, as he understood it, was due to the negotiations regarding a fiscal agency agreement. He said that he would go into the matter, before leaving the office that day, but that it was his understanding they were very nearly in agreement and that the matter would probably be settled in a day or two.

The following day, June 20, 1931, I telephoned Mr. Lancaster, after receiving a telegram from the minister in Bogota saying again, for the third time, that President Olaya was disturbed by the failure of the bankers to pay over the remaining \$4,000,000. They were now insisting upon increasing the interest rate from 7 to 8 per cent. President Olaya said that in view of what he had done in carrying out his program of settling on a basis of justice and equity and on their merits outstanding matters, he was disturbed that now when it became a question of an American institution carrying out its agreement with him they were not doing so; that the people of Colombia would not differentiate between different American interests, that they felt after carrying out all of his program of economic development, financial reform, settlement of outstanding disputes, that the position of the government would be improved, and it would be very difficult to explain why the day after an important matter, namely, the Barco concession, had been passed by the Congress as the first action thereafter the interest rate on this credit advance which had been agreed to months before, should be increased from 7 to 8 per cent.

I read this full telegram to Mr. Lancaster in order to give him the background and to let him know the point of view of President Olaya as explained to us. There was no connection whatsoever between the two matters and there never has been.

Senator WALSH of Massachusetts. You mean so far as the State Department is concerned?

Mr. WHITE. So far as the State Department is concerned and so far as the State Department knows.

Senator WALSH of Massachusetts. And do you mean so far as the bank is concerned?

Mr. WHITE. And so far as the bank is concerned it has no connection.

Senator WALSH of Massachusetts. Do you know that?

Mr. WHITE. They have stated so under oath here in the testimony both of Mr. Schoepperle and Mr. Lancaster, and so far as I know that is correct.

The CHAIRMAN. You may continue.

Mr. WHITE. A day or two thereafter Mr. Lancaster called me back on the telephone, and he said that the viewpoint of the bankers regarding this difference that had arisen between them and the Government of Colombia was as follows: That the credits made, which refers to the first \$12,000,000 under the agreement of June 30, 1930, expired

on December 31, 1930, and they were renewed by an agreement for six months thereafter, or until June 30, 1931; that there was no agreement for an extension beyond that date.

As to the \$4,000,000, increasing the total advance from \$12,000,000 to \$16,000,000, that was made in March of 1931, and likewise expired on June 30, 1931, and the last \$4,000,000, which would bring the total to \$20,000,000, if issued that day, which was about June 22, would likewise expire on June 30. Therefore the agreement would have to be made for the extension.

The reason the bankers wished to increase the interest rate was that they wanted to be reimbursed their out-of-pocket expense of some \$35,000 for cables back and forth with their representatives in Bogota and about \$9,000 representing the cost of keeping their representatives in Bogota.

This statement of the bankers' point of view was cabled to the American Legation in Bogota for the information of President Olaya. A day or two thereafter a cable came back in reply stating that President Olaya felt that this was rather niggardly treatment. I do not know that those were his exact words, but that was the effect of it, in trying to put up the rate of interest to cover these rather minor expenses.

He again said that he had settled on a basis of equity and justice matters of interest to Americans and he hoped that Americans would carry out in good faith their agreements made with him.

I telephoned again to Mr. Lancaster and gave him the substance of this point of view of President Olaya. I remember his first words: That when he had last talked to the bankers they had said the Barco matter did not concern them in the slightest; and I told him I agreed fully that it did not concern them in the slightest and that it did not concern the Department of State in the slightest, just as the bankers' arrangements of financing Colombia did not concern the Department of State except in so far as when we found a disagreement which was causing bitter feeling apparently on the part of the President of Colombia, who felt that the terms of the agreement were not being carried out, we brought the matter to their attention, and all that I asked was that he look into the matter and see what their position would be.

He telephoned to me at a later date, about June 26, as I recall it, saying that on the following Monday, June 29, all differences having been settled between the bankers and the Colombian Government, the contract for the last \$4,000,000 would be signed and that the money would be turned over on June 30, and that on June 30 the other previous credits would be renewed at the previous rate of interest.

Senator SHORTRIDGE. At 7 per cent?

Mr. WHITE. Yes.

The CHAIRMAN. And was that done?

Mr. WHITE. That was done on June 30, 1931. That is the action that the State Department has taken in the matter.

Now, what is the position of the State Department with regard to the Barco concession? The Barco concession was held by an American company, or by American interests, for there were more than one. This concession in 1926 was canceled for reasons stated in the decree canceling the concession.

The CHAIRMAN. Briefly, what were those reasons?

Mr. WHITE. As I recall the matter it was that the plans and sketches regarding the work proposed by the company, or at least by General Barco, had not been carried out, that the percentage of net profits of the company had not been paid over by General Barco. And one other reason, which I do not now remember.

Senator WALSH of Massachusetts. How could there be any net profits if the company was not operating?

Mr. WHITE. There were no net profits, hence there was no payment made to the Colombian Government.

Senator WALSH of Massachusetts. Then I suppose this cancellation was really because the Government of Colombia felt that they had not taken the proper steps to begin operations so that they might get their royalties.

Mr. WHITE. I do not know whether that was it or not.

Senator SHORTRIDGE. Have we a copy of the decree canceling that concession?

Mr. MATTHEWS. I can get one.

Senator WALSH of Massachusetts. I am suggesting that perhaps the Colombian Government felt that the parties had procrastinated too long, which was preventing the Government from getting royalties.

Mr. WHITE. I do not know just what that was. Of course this was a matter of considerable importance in the internal political affairs of the Republic of Colombia. The concession was said to be very valuable. Colombians variously estimated its value from \$300,000,000 to \$2,000,000,000, which again would show, I might point out in this connection, the importance from a political point of view in Colombia that there could be no relation whatsoever between the Barco concession, which the public considered to be so valuable, and a short time advance of \$20,000,000.

Senator WALSH of Massachusetts. What did you say right there about the public?

Mr. WHITE. I have heard it variously estimated that it was considered the value of the Barco concession ran anywhere from \$300,000,000 to \$2,000,000,000, which is a fantastic figure, of course.

Senator WALSH of Massachusetts. Might I ask you for the record what was the value of the British gold concession that had to be settled?

Mr. WHITE. That I do not remember. As I recall the matter, it was something like 300,000 pounds sterling. But we did not come into that at all.

Senator WALSH of Massachusetts. I just wanted its value on our record. It was either a matter of no consequence or of considerable consequence, and I simply wanted that on the record.

Mr. WHITE. Our view regarding that was that it was no concern to us or to the American banks, and it was not made a condition of giving this advance to the Colombian Government, and therefore President Olaya in saying that this was a new condition which was not in the contract was on solid ground.

Senator WALSH of Massachusetts. But as a matter of fact it was settled up before those loans were made?

Mr. WHITE. It was settled up, as I understand, but that was a matter that we had no knowledge of or connection with.

Senator WALSH of Massachusetts. As a matter of fact, the British mining venture was settled up, and as a matter of fact the concession that the American interests there had was disposed of, and at the same time these loans were finally negotiated. Everything was cleaned up at about the same time it so happened?

Mr. WHITE. Yes; it so happened that they were.

The CHAIRMAN. Have you anything else?

Mr. WHITE. In 1926 this concession was abrogated. The company, in accordance with the pertinent provisions of Colombian law, filed a memorial within 30 days of the abrogation, rebutting the reason giving or the failures that were alleged to have occurred and asking a reconsideration.

Senator SHORTRIDGE. Who was the owner of the claim as of the time of the cancellation or revocation or annulment of the concession, whatever we may call it?

Mr. WHITE. It was Doherty & Co., and the Carib Syndicate that owned it, but the Gulf Oil Co. had an option to take over the interests of Doherty & Co.

The CHAIRMAN. Do you know at what price the option was given?

Mr. WHITE. No, sir; I do not. In January of 1928 the companies having received no reply to their memorial, asked the Department of State to instruct the legation in Bogota to inquire of the Colombian Government when an answer might be expected. And this was done.

Senator WALSH of Massachusetts. Was that the first time the State Department was brought into the matter about this Barco concession?

Mr. WHITE. Yes, sir.

Senator WALSH of Massachusetts. And what date was that?

Mr. WHITE. In January of 1928.

Senator WALSH of Massachusetts. And that request for action upon the State Department came from whom?

Mr. WHITE. I was not here at the time, but I think it came from the Carib Syndicate which held a 25 per cent interest.

Senator WALSH of Massachusetts. Did the State Department make the inquiry?

Mr. WHITE. The State Department did. The Colombian Government at about that time asked the interests involved to send a representative to Bogota to negotiate. And this was done. The negotiations broke down in about July of 1928. The company then asked the State Department to go into the matter of the cancellation of the concession on its merits. This was the Carib Syndicate that made the request. The legal advisers of the department went into the matter and came to the conclusion that the cancellation was not justified, and inasmuch as the petition of the company requesting a rescission of the cancellation decree of 1926 had then not been answered for more than two years, the department instructed the delegation at Bogota to ask the Colombian Government to withdraw that decree.

There was a case of a legitimate American interest holding a concession which had been canceled for the reasons stated, and the company had rebutted those reasons, and had requested a reconsideration, and yet for a period of over two years no action had been taken.

After the question was studied by the legal advisers of the State Department we came to the conclusion that the company was correct in its attitude, and a request was made that the decree abrogat-

ing the concession be canceled. The Colombian Government declined to do so and reaffirmed the cancellation decree early in August of 1928, but advancing two new reasons for doing so. The Department of State then inquired of the Colombian Government whether the company would have the right to present a new petition to rebut those two new alleged reasons. The Colombian Government took the position that this was a matter between it and a Colombian company, and that—

Senator WALSH of Massachusetts (interposing). And an American company, did you say?

Mr. WHITE. No. It was a Colombian company, the stock of which was owned in large measure by American interests.

Senator SHORTRIDGE. Will you state that again? I did not understand it.

Mr. WHITE. It is a Colombian company but the stock was owned by American interests. The Barco concession was held by a Colombian company, which Colombian company in turn was owned by an American company, the stock of which is owned 75 per cent by—

Senator SHORTRIDGE (interposing). What was the immediate reply made by the Colombian Government?

Mr. WHITE. The Colombian Government replied that it was a matter between it and a Colombian corporation. The State Department replied by pointing out the American interest in the matter through the stock ownership of that company.

Senator WALSH of Massachusetts. Had the matter been litigated in the courts up to that time?

Mr. WHITE. It had not up to that time. This was an administrative decree canceling the concession, which could only be answered in the first instance as I understand it by a memorial, but I am not familiar with the legal requirements in Colombia.

Senator WALSH of Massachusetts. I suppose it was a case of some administrative officer in Colombia having found certain facts upon which they canceled the Barco concession.

Mr. WHITE. As I understand it it appeared that under the contract certain things were not done, and he alleged that the provisions of the contract had not been fulfilled.

The CHAIRMAN. What date was that?

Mr. WHITE. This was in August of 1928.

Senator KING. I suppose when the Government of Colombia challenged the proposition upon the ground that the terms had not been complied with, the persons or companies having the concession claimed that they had been complied with.

Mr. WHITE. The concession was canceled in 1926 by the decree setting forth the reasons therefor. The company had 30 days within which to file a memorial rebutting those reasons, which it did.

Senator SHORTRIDGE. And asking for a setting aside of the decree of cancellation?

Mr. WHITE. Yes, sir.

Senator KING. Was there anything in the terms of the concession by which it became a juridical question in contradistinction to an administrative one?

Mr. WHITE. I do not know about that. I am not a lawyer and have not gone into that phase of it.

The CHAIRMAN. You may go ahead.

Mr. WHITE. The companies then after this filed a suit in the Colombian courts. The Department of State made no further representations in the matter, and has not done so from that day to this. It was in August or September of 1928 that the companies filed suit, and shortly after that I think it was the then President of Colombia, Dr. Miguel Abadia Mendez, started negotiations with the representatives of the company in Bogota for an out-of-court settlement. President Abadia, who had issued a decree affirming the cancellation, took the initiative in opening negotiations for a settlement of the dispute out of court. Those negotiations languished. Nothing definite resulted therefrom, and when President Olaya came into office in August of 1930 he took up again the negotiations. The Department of State has had no connection whatsoever with those negotiations and has made no representations regarding them.

Senator WALSH of Massachusetts. And did the President succeed in getting legislative action restoring the Barco concession?

Mr. WHITE. That was at a later date, and I will come to it further on.

Senator WALSH of Massachusetts. All right.

Mr. WHITE. The President of Colombia in the meantime—or to interrupt for a moment—

Senator SHORTRIDGE (interposing). What President was that?

Mr. WHITE. President Olaya. He had had conversations in Washington before going down to assume office with Mr. George Rublee, with a view to employing him to advise and help in connection with petroleum legislation in Colombia and also in connection with the Barco concession. Mr. Rublee went to Bogota about October of 1930, and he took up on behalf of the President of Colombia negotiations for a settlement of this matter with a representative of the company having an interest in the matter. An agreement was finally arrived at and signed on March 3, 1931.

In the meantime, just prior to that, at the end of January or early in February of 1928, when negotiations had progressed to a stage where the two parties were almost in agreement, Mr. Rublee asked Mr. Caffery to cable up the view of the Colombian Government that if the company would make certain further concessions the matter could be concluded. The Department of State in the exercise of good offices between an American company and a foreign government was endeavoring to settle an outstanding controversy and passed on this information to the company. As I recall it, I telephoned to Mr. Wallace, the vice president of the Gulf Oil Co., and gave him this information.

Senator WALSH of Massachusetts. When was this?

Mr. WHITE. In January or early February of 1931.

Senator WALSH of Massachusetts. I got the impression from your testimony that the department had dropped the matter in 1928.

Mr. WHITE. We have made no representations since then whatsoever.

Senator WALSH of Massachusetts. I can not quite understand if you use your good offices because of illegal acts that were attempted on American investors at one time why you should not keep them up until the work is finished.

Mr. WHITE. Well, first of all, a suit has been filed by the company to try it out in the Colombian courts, and after that the President of Colombia had initiated negotiations looking to a settlement.

Senator WALSH of Massachusetts. Did you suggest to the President that he ought to find a solution to the matter?

Mr. WHITE. No, sir; we did not. We made no representations whatsoever looking to a settlement of this matter.

The CHAIRMAN. You may go ahead.

Mr. WHITE. Mr. Wallace over the telephone told me the views of his company regarding the matter, which we telegraphed back to Mr. Rublee. President Olaya also expressed the hope that the company would accept those conditions. The department declined to express any opinion regarding them, but merely transmitted the information from one side to the other. We were urged to come into the negotiations but declined.

The matter was finally settled by direct negotiation, and a contract was signed as of March 3, 1931. It went before the Senate of Colombia two days later, March 5, and was passed by that body, I don't remember what date, but in May, and then it went to the House of Representatives of Colombia, where it was passed on June 18, 1931, and was signed by the President of Colombia on June 20, 1931.

In the testimony here that has preceded this, the question has been asked whether there was any relation between this matter of bank credit and the matter of petroleum legislation. There was absolutely no connection whatsoever. Mr. Rublee was employed by President Olaya to advise him in this matter, and he did so.

Oil legislation was an internal matter. It is an internal matter for any government as to what laws it passes. The Department of State did not come into the matter in any way whatsoever, and we made no representations to the Colombian Government, nor were we requested to do so by any of the oil companies.

That, gentlemen of the committee, is the statement I wanted to make. Now I will be glad to answer any questions.

Senator JOHNSON. Mr. White, you will observe that I have been glad for you to make your statement, and for you to make it just as you wished. Now, on the 20th day of June, 1931, you received a long telegram from the American Minister at Bogota, didn't you?

Mr. WHITE. We received a telegram. I do not recall that it was particularly long.

Senator JOHNSON. You said a telegram of some length.

Mr. WHITE. The telegram of some length which I mentioned was a telegram which the bankers in May cabled down to Bogota to their representative.

Senator JOHNSON. We will say it was not a telegram of some length but was a telegram.

Mr. WHITE. All right.

Senator JOHNSON. And in it you said the attitude of the President of Colombia was described, and that he expressed his displeasure at the attitude of the American bankers.

Mr. WHITE. In making new conditions; yes.

Senator JOHNSON. You read that telegram over the phone to Mr. Lancaster.

Mr. WHITE. Yes, sir.

Senator JOHNSON. And the previous telegram, which was the lengthy telegram as you now say, of June 13—

Mr. WHITE (interposing). No; excuse me. The lengthy telegram that I referred to was the telegram which Mr. Lancaster read over the telephone to the Secretary of State, which the bank was sending to their representative at Bogota about May 23.

Senator JOHNSON. Let me now get your mind back to June 20, 1931. When you received a telegram from the minister at Bogota. That telegram was read over the telephone to Mr. Lancaster, was it not?

Mr. WHITE. That is right.

Senator JOHNSON. Where is it?

Mr. WHITE. Where is what?

Senator JOHNSON. That telegram.

Mr. WHITE. That telegram is in the Department of State.

Senator JOHNSON. Do you refuse to produce that telegram?

Mr. WHITE. I will have to take the matter under advisement.

Senator JOHNSON. Do you mean to say that your policy is that you will read a telegram over the telephone to New York, to a representative of New York bankers, and yet you will deny that same telegram to the Senate of the United States?

Mr. WHITE. I do not deny it to the Senate of the United States. But I do deny it to the press of the country.

Senator JOHNSON. You deny it to the press of the country?

Mr. WHITE. Yes, sir.

Senator JOHNSON. But of course—

Mr. WHITE (continuing). As I have said all the time, I am perfectly willing to show the telegram to any member of the committee.

Senator JOHNSON. I realize that. But you make the distinction between delivering that telegram here because of the publicity which would attach to it, and yet you thought it very proper to read it to the representative of a banker in New York.

Mr. WHITE. Exactly. I have not read it to the public, where it would be published to the world. And I have no right to publish to the world the views of the President of Colombia as transmitted to me.

Senator WALSH of Massachusetts. I think there is another feature of the matter, that the witness has testified about the contents of the telegram.

Senator JOHNSON. Of course he has, and that is what I am driving at. And I want to show to the committee exactly what is presented here for our consideration. Here are communications received from the American minister at Bogota. Those communications are so sacred that he can not bring them to us, and yet he reads them over the telephone to the representative of a banking house in New York. He declines to present them to the committee here because of the publicity that will be obtained, and yet he has given us the contents of the telegram. I want the committee to keep that situation in mind.

Mr. WHITE. May I say in regard to that matter, gentlemen of the committee, that those were the views of the President of Colombia regarding the matter which Mr. Lancaster as counsel for the bank was taking up.

Senator JOHNSON. Exactly.

Mr. WHITE. In other words, a change in the conditions of the contract, and his views regarding the situation.

Senator JOHNSON. Now, without the slightest interruption I have permitted you to give any information that you desired in respect to the matter, and you have gone forward with a statement here in which you have purported to recite the contents of communications, and yet you decline to produce them to the committee. You realize that situation, don't you?

Mr. WHITE. I do.

Senator JOHNSON. And in reciting their contents we do not question, of course, your recitation at all in any degree, but then you decline to present the documents to us, the contents of which you have spoken of as being before this committee. Did you expect there would be any publicity given to what you said here about them before the committee?

Mr. WHITE. I did.

Senator JOHNSON. Well, you see these gentlemen sitting behind me. Did you know that they were taking down what you say about the contents of those telegrams?

Mr. WHITE. Well, that is different from giving the definite text.

Senator JOHNSON. You say that is different from giving the definite text?

Mr. WHITE. Yes.

Senator JOHNSON. In what way is it different from giving out the text, if you state the text of the telegrams here to me?

Mr. WHITE. But I am not reciting the text, Senator Johnson. I can not do it from memory. My memory does not serve me well enough to recite the text.

Senator JOHNSON. You have recited from memory the text.

Mr. WHITE. I have stated the substance of what was in it.

Senator JOHNSON. And after reciting the substance of what is in the telegram, do you make the distinction between publicity that will thus be carried out to the public and publicity if the telegram itself is given to this committee?

Mr. WHITE. I am simply making the statement that communications between the Department of State and its agents abroad are not customarily given out to the public. All these communications, however, are at the disposal of yourself or any other Member of the Senate.

Senator JOHNSON. I understand that perfectly. But on what theory, if these telegrams are not to be given out to the public, do you here, in the presence of all the representatives of the press, recite their contents?

Mr. WHITE. I am giving the substance of them to you.

Senator JOHNSON. And on what logical theory, if logical at all, do you do that? And then say that they shall not be given to the committee, because thereby they would be given to the public through the press. Of course, the representatives of the press are here now. You realize that, do you not?

Mr. WHITE. I do.

Senator JOHNSON. Will you give me any reason, then, for withholding them further from this committee?

Mr. WHITE. None other than what I have already referred to.

Senator JOHNSON. Will you bring them to this committee?

Mr. WHITE. I can not promise.

Senator JOHNSON. Mr. Chairman and gentlemen of the committee, I insist that under the circumstances these dispatches that Mr. White has recited here shall be laid before this committee. And I ask you to take the matter up.

The CHAIRMAN. Do you mean for the confidential consideration of the committee?

Senator JOHNSON. I want them for the consideration of the committee and of anybody who desires to consider them.

The CHAIRMAN. I simply wanted to know your position.

Senator JOHNSON. My position is that when of his own initiative, because this committee is willing that he be permitted in such way as he desires to present what he wishes, I say, that when on his own initiative Mr. White comes forward and makes a statement and recites what is in these dispatches, then he can not withhold them for a quarter of a second from this committee, either legally or on any such attenuated theory that their contents may be given publicity, because he has already done that very thing. He says he does not want us to put them in the record and give them to the public. Now, we will return to the telegram of June 20, 1931: In that telegram there were various matters the dispatch stated as having been settled by President Olaya, were there not?

Mr. WHITE. There were.

Senator JOHNSON. In that telegram President Olaya said in so many words to your representative in Bogota that he had settled all American differences and had settled the Barco concession.

Mr. WHITE. That is correct.

Senator JOHNSON. Now, in reading your telegram at that time to Mr. Lancaster you read him the position of the President of Colombia, in which the President of Colombia said that he had done everything that Americans had asked, I think that was practically his language if I recall it aright, and that he had settled not only the Barco concession but he had enacted petroleum laws that were desired by Americans, too. Do you recall that?

Mr. WHITE. I do not recall whether that was in the telegram or in a subsequent one.

Senator JOHNSON. But in one of the telegrams he reiterated the fact that he had done everything Americans had asked of him.

Mr. WHITE. I think it was in a subsequent one.

Senator JOHNSON. But in the telegram of June 20th you have said in so many words that he spoke of the settlement of outstanding disputes, and mentioned the Barco concession.

Mr. WHITE. That is correct.

Senator JOHNSON. And that that particular telegram of June 20, 1931, was read by you to Mr. Lancaster in New York.

Mr. WHITE. That is correct.

Senator JOHNSON. What was the settlement of outstanding disputes that subsequently was referred to by him?

Mr. WHITE. There were disputes by the oil companies regarding various oil legislation. Some of the companies felt that the laws were confiscatory.

Senator JOHNSON. And he had settled those by enacting new laws.

Mr. WHITE. There had been a series of laws enacted over a period of years, and a settlement of those matters was started about 1927

by President Abadia, and finally culminated in the law passed some time in 1931.

Senator JOHNSON. And he mentioned still further the matter of the Barco concession, as you have stated.

Mr. WHITE. That is right.

Senator JOHNSON. Now, a day or two thereafter Mr. Lancaster called you back and talked to you upon the proposition; do you remember?

Mr. WHITE. Yes, sir.

Senator JOHNSON. And again you read to him the dispatch that had come.

Mr. WHITE. No; excuse me. Your chronology is wrong. He called me back and told me the position of the bankers regarding the raising of the interest rate from 7 to 8 per cent.

Senator JOHNSON. Yes. And again you received a wire from Bogota.

Mr. WHITE. Yes, sir.

Senator JOHNSON. And again the President of Colombia stated in so many words that he had carried out all that the Americans had desired, including a settlement of the Barco concession.

Mr. WHITE. That is correct.

Senator JOHNSON. And again you read that dispatch.

Mr. WHITE. I did not read that dispatch. I gave him the substance of it.

Senator JOHNSON. You have stated here that you telephoned this again to Mr. Lancaster.

Mr. WHITE. The substance of it. The only one I read was the one of June 19, which I read to him on June 20.

Senator JOHNSON. But the substance of it you stated, I presume, with accuracy and quite fully, didn't you?

Mr. WHITE. I think so.

Senator JOHNSON. And at that time Mr. Lancaster replied to you that the bankers said they did not care anything about the Barco matter.

Mr. WHITE. That is correct.

Senator JOHNSON. Is that correct?

Mr. WHITE. Yes, sir.

Senator JOHNSON. And that it did not concern them in the slightest was the language that you used?

Mr. WHITE. That is correct.

Senator JOHNSON. Somebody must have been interested in the Barco matter to have had it described to you by telegraph from Bogota that the Barco matter had been settled. Now, who was it?

Mr. WHITE. The American Legation.

Senator JOHNSON. The American Legation was interested in that settlement; is that correct?

Mr. WHITE. The American Minister at Bogota in the pursuit of the duties of minister to keep the Department of State advised of developments, and especially matters which are of concern to American interests and commerce, advised us when the contract was passed.

Senator JOHNSON. But don't you recall that President Olaya said in this dispatch that he had settled the Barco concession and had done all that Americans had asked of him?

Mr. WHITE. Exactly. And may I say a word in this connection?

Senator JOHNSON. Why, of course. I have certainly not interfered with your testimony in any way, and I shall not.

Mr. WHITE. Senator, there was no connection between these matters whatsoever. President Olaya knew there was no connection between them, but the public of Colombia considered all American interests as one, and what he said was, that when he on their merits, which was the position he took when he settled them, on their merits and based on equity and justice, had settled outstanding American claims, he felt that he had a right to expect that American interests having contracts with him would likewise carry them out in good faith, when he had complied with the terms of that contract. In other words, each case was considered on its merits, but he made this statement after he had three times been disappointed in the prompt carrying out of the agreement.

Senator JOHNSON. And did he three times make the statement?

Mr. WHITE. He made it on those two occasions that I recall.

Senator JOHNSON. In those two telegrams, the substance of which was communicated to Mr. Lancaster?

Mr. WHITE. Yes, sir.

Senator JOHNSON. And one was read verbatim to Mr. Lancaster?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Was this President Olaya's idea: I have settled your Barco concession. I have settled your oil troubles; now why don't you carry out your contract by giving me the money to which I am entitled. Was that the substance of it?

Mr. WHITE. And which was agreed upon months before.

Senator JOHNSON. Yes; and the consummation of which had been delayed for a considerable period of time by the National City Bank.

Mr. WHITE. Exactly, by reason of extraneous matters.

Senator JOHNSON. And this was during the latter part of June of 1931?

Mr. WHITE. That is correct.

Senator JOHNSON. And on the 30th day of June, 1931, the money was forthcoming?

Mr. WHITE. That is correct.

Senator JOHNSON. Now, Mr. Chairman, with this gentleman I am going through various studies and it may take some time. We have run pretty long to-day, and I would be very glad to take our recess now until to-morrow if that could be done.

The CHAIRMAN. Very well. The committee will stand adjourned until 10 o'clock to-morrow morning.

(Whereupon, at 4.03 p. m., Thursday, January 14, 1932, the committee adjourned until 10 o'clock the following morning.)



# SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

FRIDAY, JANUARY 15, 1932

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to adjournment on yesterday, January 14, 1932, in the committee hearing room in the Senate Office Building.

Present: Senators Smoot (chairman), Shortridge, Jones, La Follette, Harrison, and Costigan.

Present also: Senator Johnson.

The CHAIRMAN. The committee will come to order.

Doctor White, will you resume the stand?

## TESTIMONY OF FRANCIS WHITE, ASSISTANT SECRETARY OF STATE, WASHINGTON, D. C.—Resumed

Senator JOHNSON. I asked you yesterday concerning certain dispatches and requested their production before the committee. I think you then declined to produce them. Is that your attitude to-day?

Mr. WHITE. Yes, Senator.

In that connection I also wish to make a rectification of my testimony. In examining the files of the department I find that I did not read the full telegram to Mr. Lancaster. I read most of it. There was a notation of one or two parts of it which were omitted.

Senator JOHNSON. The attitude of the department, then, is that it declines to produce the particular dispatches?

Mr. WHITE. There is no change from my position of yesterday, Senator.

Senator JOHNSON. And the reason is what you yesterday stated?

Mr. WHITE. The reason is that there are matters in this telegram referring to relations between the United States and a foreign government which we did not think should be put in the record. They do not refer to the Barco matter or petroleum legislation. They are at the disposal of you, Senator, or any other Member of the Senate, on a basis of confidence. I will exhibit them to you on that basis, that you will hold them confidential. But there are matters in the telegrams other than what I mentioned in my testimony yesterday which I do not think should be spread on the record.

Senator JOHNSON. Do these matters relate at all to Colombian loans?

Mr. WHITE. They do not.

Senator JOHNSON. Have they any reference at all to the subject matter of this investigation?

Mr. WHITE. They have not.

Senator JOHNSON. Will you bring, at 2 o'clock to-day, transcripts of the telegrams which bear upon the subject matter of this investigation and relate solely to that?

Mr. WHITE. No, Senator.

Senator JOHNSON. You will not bring even them?

Mr. WHITE. No, Senator.

Senator JOHNSON. I am saying now to eliminate all matter that you say is not pertinent and has no connection with this investigation, but relates to foreign governments. I ask you to bring a transcript of the other parts of those telegrams. Will you do so?

Mr. WHITE. I am not authorized to do so, Senator. Any of those telegrams you may see confidentially.

Senator JOHNSON. No; I am asking you to bring the parts of the telegrams relating to the matters concerning which you testified yesterday.

Mr. WHITE. My position is the same as stated yesterday.

Senator JOHNSON. That is, you assume the right to recite what is in a telegram as you deem appropriate, but deny the right of this committee to see the telegram? Is that correct?

Mr. WHITE. No, Senator; it is not. I do not deny the right of this committee—or, rather, I am perfectly willing for this committee to see every telegram and every paper connected with this matter, on the basis of confidence, keeping them in confidence.

Senator JOHNSON. I am speaking now merely in relation to the matters concerning which you have testified. Are you unwilling that the telegrams in relation to those matters shall be seen by the committee and seen in public session as the committee is meeting?

Mr. WHITE. Yes, sir.

Senator JOHNSON. You are unwilling that that should be done?

Mr. WHITE. Yes, sir.

Senator JOHNSON. You decline to produce these transcripts of the telegrams relating to the subject matter of your testimony yesterday?

Mr. WHITE. Yes, Senator.

Senator JOHNSON. Omitting in each instance, I say, whatever may be deemed by you to be confidential matter concerning a foreign government that is unrelated to the subject matter of this investigation?

Mr. WHITE. My position, as I stated yesterday, is that you or this committee or any Senator may see and examine the actual record of this matter at any time you wish to do so, on a basis of keeping the matter confidential.

Senator JOHNSON. But I am not speaking of that at all. I am asking you to produce transcripts of the parts of the telegrams concerning which you testified yesterday.

Mr. WHITE. My position is as just stated.

Senator JOHNSON. Your position is the same; you will not do that?

Mr. WHITE. My position is just the same.

Senator JOHNSON. You insist that this committee shall depend entirely as to the contents of these telegrams upon what you say respecting them?

Mr. WHITE. No; I do not, Senator. If you have any doubts regarding that, you may see the telegrams, as I said.

Senator JOHNSON. I asked you for transcripts of those telegrams on matters concerning which you have testified, and you decline to produce them. That is correct, is it not?

Mr. WHITE. I decline to produce them in public session; yes. I throw them open to this committee, however.

Senator JOHNSON. That is not what I am asking. I am saying to you to delete the portions that you consider portions relating to a foreign government, that are unconnected with this investigation, and to furnish only transcripts of these telegrams that relate to this investigation and concerning which you have testified; and you refuse to do that?

Mr. WHITE. I am perfectly willing to exhibit to you every telegram, every document that we have in the Department regarding this matter, on the basis that I have already stated.

Senator JOHNSON. On the basis that I can not examine you concerning them. How is it possible, if I accepted any such proposition as that, with such a telegram here to examine you concerning it? Necessarily, it would become public. And if I gave my word as to confidence, that word of course is inviolable. What I am asking of you is—will you furnish to this committee transcripts of these telegrams relating solely to the subject matter of this investigation and to the matter concerning which you have already testified?

Mr. WHITE. I am not authorized to change my position.

Senator JOHNSON. You decline to do it, then?

Mr. WHITE. Yes, sir.

Senator JOHNSON. All right, sir; so much for that.

Now let us take your mind back, if you please—

Senator JONES. May I interrupt?

Senator JOHNSON. Certainly.

Senator JONES. Are there any parts of these telegrams that you do not consider confidential?

Mr. WHITE. As I stated yesterday, Senator, it is impossible to carry on foreign relations publishing all the correspondence between our representatives abroad and the Department of State. However, if there is anything in connection with this matter which is of interest to any Senator we are only too glad to give them the whole record and let them examine it, every paper we have got, but maintaining it in confidence.

Senator JONES. That is not what I asked you. I asked you whether or not there are any parts of these telegrams that you do not consider confidential.

Mr. WHITE. That is possible.

Senator JONES. If there are parts of them that you do not consider confidential, you would have no objection to presenting those parts to the committee, would you?

Mr. WHITE. That is a matter that would have to be taken under advisement.

Senator JONES. Very well. Will you look into the telegrams and see if there are parts that are not considered confidential?

Mr. WHITE. Yes, sir.

Senator JONES. And then advise the committee as to whether there are any such parts or not and, if there are parts that are not confidential, bring them to the committee.

Mr. WHITE. I shall be glad to consult about that.

Senator JOHNSON. I doubt if you were present yesterday, Senator Jones—

Senator JONES. No; I was not.

Senator JOHNSON. So I want to say to you that certain telegrams were recited here by this witness yesterday, the substance and the contents; and in one instance, at least, one of the telegrams was read over the telephone to representatives of international bankers in New York. I have been asking him this morning to produce transcripts of the matter concerning which he testified yesterday, deleting what he may deem to be confidential matter concerning foreign governments, and he declines to do so. I want the record to show conclusively just what this situation is.

Mr. WHITE. I am perfectly willing to give you, Senator, in confidence, the telegram exactly as I gave it to Mr. Lancaster, in confidence.

Senator JONES. I think I understand your position, but I thought that if there were matters in the telegrams that were not considered confidential, I can see no reason why you should not present those to the committee in response to Senator Johnson's question, which indicated that you were asked the question on the basis of deleting the parts that were confidential.

Senator JOHNSON. Of course. He has read them to the international bankers; but that is different.

Mr. WHITE. In confidence, Senator.

Senator JOHNSON. You read them to international bankers in confidence. Is that what you are saying now?

Mr. WHITE. Yes, sir.

Senator JOHNSON. All right. In March, 1931, you received a message from the Minister at Bogota, did you?

Mr. WHITE. March 31?

Senator JOHNSON. Yes.

Mr. WHITE. I do not recall.

Senator JOHNSON. In March, 1931?

Mr. WHITE. Yes. I thought you meant March 31.

Senator JOHNSON. You received a message from the Minister at Bogota?

Mr. WHITE. Yes, sir.

Senator JOHNSON. You testified yesterday concerning that message; do you recall that?

Mr. WHITE. Yes.

Senator JOHNSON. Will you state what that message contained?

Mr. WHITE. That message set forth the views of the President of Colombia regarding what he considered a failure on the part of the bank to carry out its agreement with the Colombian Government. A loan contract was entered into between the President-elect of Colombia on behalf of his Government and a banking group in New York on June 30, 1930.

Senator JOHNSON. All of this was stated in the telegram?

Mr. WHITE. No, sir.

Senator JOHNSON. I am asking you the contents of the telegram.

Mr. WHITE. I would like to lead up to it and give you a full picture, if I may.

Senator JOHNSON. I think I understand the picture. I am asking you now, for the purposes of the record, the contents of that particular telegram.

Mr. WHITE. Senator, I can not recite the telegram verbatim. I can tell you the story regarding it, which I will be very glad to do as I said yesterday.

Senator JOHNSON. Yesterday you said you had a telegram from the Minister at Bogota—

Mr. WHITE. Complaining or stating the President's complaint that the bankers were making a new condition with regard to turning over the money; that the President had complied with what he had agreed to do, namely, to balance his budget, to pass laws regarding the customs administration and the railroad administration, putting them on a sound economic basis. Those were all the agreements that he had made as to things that he was to do of that sort. He had complied. The bankers, when he did that, were then to pay over to him a certain sum of money—\$4,000,000—when he had complied with his part of it. The bankers, instead of paying over the money, were insisting or asking that a claim of a British gold-mining company be paid first. He said that this was not carrying out the contract, and he was upset about it, as his program had been based on getting the money at certain specified times, and he asked us to take an interest in the matter. Whereupon I called up a representative of or counsel for the National City Bank and related this matter to him. As I stated yesterday, we came into the matter as trying to resolve a conflict between a foreign government and an American institution respecting the carrying out or fulfillment of an agreement entered into some months before.

Senator JOHNSON. I am starting now with your telegram, so that this record may show exactly what has transpired. In March, 1931, a message was received from the American minister at Bogota. In that message he said what you have indicated, that the President stated that he had complied with all of the requirements of the bankers, and he complained very bitterly, or he complained, at least, about the bankers insisting that a British mining claim should be settled before they proceeded to give him the \$4,000,000 credit that they had obligated themselves to give him.

Mr. WHITE. Yes, sir.

Senator JOHNSON. You telephoned, then, the contents of that telegram to Mr. Winston, did you not?

Mr. WHITE. The substance of it; I did.

Senator JOHNSON. Mr. Winston is the attorney for one of the attorneys for the National City Bank?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Was he attorney for any other interested party in connection with that transaction?

Mr. WHITE. Not that I know of. I do not know whom he represents other than the National City Bank.

Senator JOHNSON. This telegram, then, of March, 1931, thus received by you from the minister at Bogota, the substance of which you telephoned to the attorney for the international bankers, I ask you again to produce. I had not asked that particular one yesterday. Will you produce it?

Mr. WHITE. I must take the same position.

Senator JOHNSON. You decline to do so. Do you say that in that telegram there is any confidential matter that relates to a foreign government?

Mr. WHITE. I do not. I can not without examining the telegram.

Senator JOHNSON. Do you know now as a fact that that telegram relates solely and alone to the loan of the National City Bank to Colombia and expresses the position that was taken by the President of Colombia concerning that loan?

Mr. WHITE. That is my recollection of it, but I am depending entirely upon my memory now.

Senator JOHNSON. That telegram you recited yesterday and you just recited it again here, and you decline to produce it for this committee?

Mr. WHITE. My position is as stated.

Senator JOHNSON. Your position is that you decline to do so?

Mr. WHITE. Correct.

Senator JOHNSON. After that telephonic message to Mr. Winston, on the following day, according to my shorthand notes here, you called up and spoke to Mr. Lancaster concerning the matter; is that correct?

Mr. WHITE. Yes, sir.

Senator JOHNSON. In your conversation with Mr. Lancaster over the phone to New York, Mr. Lancaster being one of the attorneys for the National City Bank which was the lending corporation in this instance, you told him the substance of the telegram, did you not?

Mr. WHITE. I did.

Senator JOHNSON. And you related the telegram as you have related it here yesterday in your statement that you made yourself, and as you have related it now to me?

Mr. WHITE. Yes, sir.

Senator JOHNSON. In May, 1931, the exact date, as I have it here, being May 12, you received a telegram from the minister at Bogota again, did you not?

Mr. WHITE. The telegram was dated May 12. Whether we received it on May 12 or May 13 I am not sure; but the telegram was dated May 12.

Senator JOHNSON. From the American minister at Bogota to your department?

Mr. WHITE. That is correct.

Senator JOHNSON. To whom did you transmit that telegram or to whom did you speak concerning it?

Mr. WHITE. I spoke with Mr. Lancaster.

Senator JOHNSON. The attorney for the National City Bank; is that correct?

Mr. WHITE. That is correct.

Senator JOHNSON. Again, in that telegram you said yesterday the president complained and was very much concerned about the situation; do you remember?

Mr. WHITE. Yes, sir; I do.

Senator JOHNSON. He said he had done all that he should do and had complied with all the conditions that were asked of him, and wanted the loan made to him in accordance with the agreement with the National City Bank?

Mr. WHITE. That is correct.

Senator JOHNSON. Did you read that telegram over the phone to Mr. Lancaster?

Mr. WHITE. No, sir; I did not.

Senator JOHNSON. You stated the substance of it to him?

Mr. WHITE. Yes, sir.

Senator JOHNSON. With the telegram before you?

Mr. WHITE. Yes, sir.

Senator JOHNSON. I ask you to produce that telegram for this committee as well. Do you decline to do so?

Mr. WHITE. My position is as stated.

Senator JOHNSON. That is, that you decline to produce it?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Was there anything in that telegram that dealt with international relations of any kind or any character save in regard to this loan of the National City Bank and the subject matter of this investigation?

Mr. WHITE. I can not say from memory.

Senator JOHNSON. You are unable to say that from memory at present?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Will you produce the two telegrams that I have just mentioned to you concerning which you testified yesterday and concerning which you gave the substance to the international bankers in New York, or their representatives, and will you produce them with the matter that you claim is confidential, or that does not relate to the subject matter of this inquiry, omitted? Will you produce transcripts of them to this committee?

Mr. WHITE. My position is as stated.

Senator JOHNSON. You decline to do it?

Mr. WHITE. I am not authorized to do it, sir.

Senator JOHNSON. All right, sir. Let us follow up the next wire that you received. Do you remember what it was?

Mr. WHITE. It was later in the month. We received it on the 16th.

Senator JOHNSON. The 16th day of May?

Mr. WHITE. It was dated, as I recall it, probably the 15th.

Senator JOHNSON. But on the 16th day of May you received another wire from the American minister at Bogota relating to this matter?

Mr. WHITE. That is correct.

Senator JOHNSON. Will you state what was said in the telegram concerning the loan or concerning the position that was taken by Colombia?

Mr. WHITE. It was reiterating the position of the President of Colombia that he had balanced his budget once in agreement with the bankers; that he could not go on balancing the budget every month; that the bankers had agreed with him on a balanced budget of 51,000,000 pesos a year, and later he had reduced this to 49,000,000,

and now when receipts were falling lower the bankers were insisting upon a still further reduction; and he said that the bankers having agreed that he had a balanced budget, it was not equitable that later on, when they found receipts dwindling, they should reopen the whole matter again and make further conditions of budgetary reductions before paying over the remaining portion of the loan.

Senator JOHNSON. What else did he say?

Mr. WHITE. I do not recall.

Senator JOHNSON. Did he say that "I have done everything that the Americans have asked me"?

Mr. WHITE. I do not recall that he did.

Senator JOHNSON. Did he say "I have been doing the utmost that I could in reference to the Barco concession"?

Mr. WHITE. Not that I know of.

Senator JOHNSON. You do not recall?

Mr. WHITE. I do not recall.

Senator JOHNSON. Was that all that was in the telegram?

Mr. WHITE. So far as I know. I would have to check up my memory.

Senator JOHNSON. These telegrams that I am asking you about are those concerning which you yesterday voluntarily testified to this committee upon.

Mr. WHITE. Exactly. In going over the records I simply familiarized myself with what I had stated to the bankers, and told you. Whether there are other matters in it or not, I do not recall. I was not looking at it from that point of view; I was looking at it from the point of view of what I had said to the bankers.

Senator JOHNSON. Will you furnish a copy of that telegram deleting any matter, if there by any, that you consider does not relate to the subject matter of this inquiry?

Mr. WHITE. My position is the same.

Senator JOHNSON. You decline to do so?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Do you recall the next telegram that you received from your representatives at Bogota?

Mr. WHITE. About May 23, as I recall it.

Senator JOHNSON. May 23?

Mr. WHITE. No, Senator—

Senator JOHNSON. That is when Lancaster telephoned something, is it not?

Mr. WHITE. That finished the May episode. The next one was in June. A telegram dated May 19, received on June 20—

Senator JOHNSON. In order that the matter may be chronologically correct, after the May 16 telegram the Secretary of State talked to Mr. Lancaster, the representative of the National City Bank, concerning the matter? Is that right?

Mr. WHITE. That is correct.

Senator JOHNSON. And after the receipt of the May 16 telegram Mr. Matthews, of the Department of State, went to New York, took with him the contract of the National City Bank, and having talked with the Secretary of State concerning it, he, Matthews, went to the office of the National City Bank and discussed the proposition with Mr. Schoepperle?

Mr. WHITE. In the circumstances stated by me in my testimony yesterday.

Senator JOHNSON. I am assuming that. Were there any other circumstances?

Mr. WHITE. No. I simply mention that so that the picture as a whole is as I stated it.

Senator JOHNSON. We are trying to make the picture from the facts and only from the facts.

Mr. WHITE. That is what I am trying to do also.

Senator JOHNSON. And only as those facts may make the picture; that is all.

Mr. WHITE. I stated the facts yesterday.

Senator JOHNSON. That was in the latter part of May, 1931?

Mr. WHITE. That was on the 18th of May.

Senator JOHNSON. On the 23d of May you received a communication from Lancaster, did you not?

Mr. WHITE. He telephoned.

Senator JOHNSON. Was there any memorandum of that communication kept?

Mr. WHITE. I do not recall that there was, because the substance of it was incorporated in a telegram which was cabled to the legation in Bogota for its information.

Senator JOHNSON. Have you a copy of that at your department?

Mr. WHITE. I have.

Senator JOHNSON. So that what Mr. Lancaster telephoned to you—Lancaster representing the National City Bank—you embodied it in a wire that you sent to the American Minister at Bogota?

Mr. WHITE. That is correct.

Senator JOHNSON. And yesterday you testified as to Mr. Lancaster's statements to you in respect to the matter; do you recall?

Mr. WHITE. That is right.

Senator JOHNSON. I ask you to produce a copy of that telegram sent by you to Bogota containing the statements made by Lancaster, the attorney for the National City Bank. Will you do so?

Mr. WHITE. I am not authorized to change my position.

Senator JOHNSON. You decline to do it?

Mr. WHITE. Yes, sir.

Senator JOHNSON. What was the next communication that you recall that you had?

Mr. WHITE. A telegram of June 19.

Senator JOHNSON. It was received by you. I thought you said yesterday, on June 20, 1931?

Mr. WHITE. That is correct, but it was dated June 19.

Senator JOHNSON. And that telegram was received from the American Minister at Bogota?

Mr. WHITE. That is correct.

Senator JOHNSON. That telegram you read over the telephone?

Mr. WHITE. Parts of it.

Senator JOHNSON. Yesterday you said you read the telegram, and made no qualifications.

Mr. WHITE. Quite so. I find on looking at the record, on returning to the department yesterday, that I was in error. There was a memorandum stating that I read this telegram over the telephone to Mr. Lancaster except certain parts.

Senator JOHNSON. Were those parts relating to this particular matter?

Mr. WHITE. They were not.

Senator JOHNSON. Did they have anything to do with the particular subject of investigation by this committee?

Mr. WHITE. No, Senator.

Senator JOHNSON. They had nothing to do with the National City loan or with the attitude of Colombia respecting it?

Mr. WHITE. I am not quite clear, Senator—I do not know that I understand whether you are referring to the part I did not read to him or to the part I did read.

Senator JOHNSON. I am referring, of course, to the part you did not read.

Mr. WHITE. The part I did not read; no, sir.

Senator JOHNSON. It did not have any relation whatsoever to the subject matter of this inquiry?

Mr. WHITE. No, sir.

Senator JOHNSON. It did not?

Mr. WHITE. No, sir.

Senator JOHNSON. You read over the phone to Mr. Lancaster on June 20, 1931, a telegram received from the American minister at Bogota, or all of that telegram which related to the subject matter of this inquiry and the loan that was made by the National City Bank on the contract that had been made by the National City Bank to make this loan to Colombia?

Mr. WHITE. I do not understand your question.

Senator JOHNSON. You read everything in that telegram to Lancaster that related to the subject matter that we are investigating here? Maybe that makes it plain.

Mr. WHITE. That is correct.

Senator JOHNSON. All right. Now, having read it to Lancaster, who represented the international bankers, over the phone, verbatim, as I understand you—

Mr. WHITE. Correct.

Senator JOHNSON. Is that correct?

Mr. WHITE. Yes, sir.

Senator JOHNSON. I ask you to produce a transcript of that telegram, omitting or deleting as you may see fit any extraneous matter that has nothing to do with this investigation or with the particular loan that was made by the National City Bank to Colombia. Will you do that?

Mr. WHITE. My position is as stated.

Senator JOHNSON. You decline to do that?

Mr. WHITE. Yes, sir.

Senator JOHNSON. All right, sir.

Senator JONES. I understand that you are acting under orders of your superior officer. Is that correct?

Mr. WHITE. That is correct.

Senator JOHNSON. Do I understand that this is a decision of the Secretary of State with relation to the matters that I have asked concerning?

Mr. WHITE. I am perfectly willing to take the responsibility for the decision.

Senator JOHNSON. I do not care who takes the responsibility. That is not the point of it. You said you were acting under orders.

Mr. WHITE. I have consulted with the Secretary of State regarding it.

Senator JOHNSON. And is it the Secretary of State's position that none of these should be produced in the manner that I have indicated?

Mr. WHITE. I do not know that he has examined the records.

Senator JOHNSON. I don't, either; I am sure of that. But I am trying to find now whence comes the refusal to produce the telegrams in the manner that I have suggested. Is it your determination or is it the determination of the Secretary of State?

Mr. WHITE. I make the determination.

Senator JOHNSON. You make the decision?

Mr. WHITE. I will make the decision; yes, sir. I will take the responsibility in this matter.

The CHAIRMAN. Are you following the same policy that has been followed by the State Department for years past?

Mr. WHITE. Yes, Senator.

The CHAIRMAN. There is no change at all in the policy now from what it has been for the last 25 or 30 years?

Mr. WHITE. That is correct, Senator.

Senator JOHNSON. Then do I understand you to say to this committee that for 25 years the policy of the State Department has been to read to international bankers dispatches that come from American ministers and to deny the very parts that you have read in the dispatches, or by transcript, to a Senate committee or to the Congress of the United States?

Mr. WHITE. I will say this, Senator, that the telegrams which I gave in confidence to Mr. Lancaster I will give in confidence to you; and I will give in confidence to you what I did not give to Mr. Lancaster, namely, that whole record.

Senator JOHNSON. But you yourself disclosed the record yesterday in a voluntary statement that you made to this committee. You realize that, do you not?

Mr. WHITE. I realize that I gave you the substance of these telegrams, exactly. I wanted to cooperate with you in every way possible and give you the fullest possible information I properly could.

Senator JOHNSON. In reciting the telegram did you withhold from the committee part of it?

Mr. WHITE. We are not publishing correspondence between the Department of State and its agents abroad.

Senator JOHNSON. But you did publish it yesterday, yourself.

Mr. WHITE. I certainly gave the pertinent part of it, Senator, that you might have the full story of the action of the Department of State in connection with this whole matter.

Senator JOHNSON. You gave it yourself, on your own motion, in your desire to make a statement to this committee?

Mr. WHITE. Exactly. I wanted to make a full and frank statement, to be as helpful to this committee as I possibly could.

Senator JOHNSON. And you made your full and frank statement disclosing to the committee, yourself, of your own volition, these telegrams?

Mr. WHITE. That is correct.

Senator JOHNSON. And you deny now, pursuing your plan of full cooperation, those telegrams to the committee.

Mr. WHITE. The telegrams are at the disposal of the committee, as I have stated, Senator.

The CHAIRMAN. I understood you to say that there were parts of those telegrams that you did not read over the phone?

Mr. WHITE. That is quite true.

The CHAIRMAN. But you have just said to Senator Johnson, as I understood you, that you had read the full telegrams over the phone to a representative of the bank.

Mr. WHITE. One telegram only, the telegram of June 19. I testified yesterday that I had read that telegram over the phone to Mr. Lancaster. On returning to the department yesterday and looking over the records again I found that my memory was at fault, that there were one or two sentences in that telegram which I had not read to Mr. Lancaster, and I made that correction this morning. Except for those omissions I read the remainder of the telegram to Mr. Lancaster.

The CHAIRMAN. Then you have only read, in the telegrams between Colombia and the State Department—

Mr. WHITE. One telegram only.

The CHAIRMAN. Just a moment. You have only read that part that dealt with the loan of the National City Bank?

Mr. WHITE. The loan of the National City Bank; and there was another part of the telegram relating to other confidential matters which I am perfectly willing to show to the Senate in confidence but which I do not feel at liberty to divulge in an open hearing.

The CHAIRMAN. And in that you are following out the policy of the department?

Mr. WHITE. Yes, sir.

The CHAIRMAN. Not only of to-day, but of years past?

Mr. WHITE. Yes, sir.

Senator HARRISON. Was there anything in the telegram that is not compatible with the public interest to have disclosed?

Mr. WHITE. There is something in that telegram, because it relates to relations or matters concerning a foreign government.

Senator HARRISON. If there is something in the telegram that is not compatible with the public interest, why did you transmit the information to the international bankers?

Mr. WHITE. I gave it in confidence, as I am willing to give it in confidence to this committee. In other words, there are many things which one can discuss in confidence which one does not broadcast in the newspapers.

Senator HARRISON. It seems to me, Mr. Chairman, that the committee has got to adopt whatever policy it is going to adopt with reference to this matter. It looks to me like the committee ought to have the telegrams. Whether you want them first in executive session and then give them to the public or not is another proposition. I think we ought to adopt some policy with reference to this matter now.

The CHAIRMAN. It is a policy that has been followed for a quarter of a century or, perhaps, for the life of the Nation.

Senator JOHNSON. If the chairman means by that that the policy has been such as was pursued in this case, for a quarter of a century,

I must very respectfully take issue with him. There can not have been any policy of the State Department for 25 years or a quarter of a century, or for 25 seconds, that telegrams that come from an American Minister should be read to international bankers and then recited here before a committee, and after the recitation by a member of the State Department and after they had been read to international bankers, that they should be denied either to this committee or to the people generally.

The CHAIRMAN. Senator, he is not denying them to any member of the committee, as far as that is concerned. Any member of the committee can go and see them, and see just exactly what is in the telegrams. But I understood the Doctor to say that he is simply following out the policy of the department, and I think that has been the policy, that confidential matters affecting political questions—or perhaps I might go further than that—between the United States and a particular foreign country are never made public.

Senator JOHNSON. You overlook there that I have asked him for transcripts deleting everything not pertaining to this discussion concerning which he testified yesterday, of his own volition, in a statement that he voluntarily made to this committee. If there is any logic in the situation that is thus presented, I fail to see it.

The CHAIRMAN. Senator, in the request made by you you asked to have stricken out that part which had nothing to do with the loan. There may have been something in that question itself that should not be made public; and that, as I understand it, is the position taken by the doctor.

Senator JOHNSON. No. The portion that is not related to the loan I have asked him to delete, if he desired, and to give us the remainder. The remainder of the telegrams relating to the loan he has already disclosed—not only disclosed it to the bankers in New York and to their representatives, but disclosed it here yesterday; and it is perfect folly to talk about publicity, then, of the portion that he has testified about and concerning which we have asked for transcripts, deleting what he may think was confidential.

The CHAIRMAN. Except that he then said, when you asked the question as to why he did not follow that plan, that he could not follow it because it was against the policy of the State Department that has been followed for years.

Senator JOHNSON. I disagree with the statement that that has been the policy of the State Department for years, because if the State Department desired to keep confidential any telegram from its ministers it could do so. But here comes a representative of the State Department and himself voluntarily relates just exactly what was in the telegrams. He does it of his own volition, after it has been demonstrated also that not only has he related what was in the telegrams, but that he read at least one of the telegrams concerning the matter under investigation here, to international bankers in New York, and then he says that he can not permit a transcript of the telegrams to come to this committee and won't permit it because it is not the policy of the State Department. I can not follow the situation logically, and I can not believe that that has been the policy of the State Department for a quarter of a century or any other length of time.

The CHAIRMAN. Of course, he has told every Senator here that they can go down there and see the telegrams for themselves, exactly, every word of them.

Senator JOHNSON. And then what? Could I talk to you about it?

The CHAIRMAN. That would be left entirely with you.

Senator JOHNSON. Yes. Could I talk about it on the floor of the Senate?

The CHAIRMAN. That would be entirely with you.

Senator JOHNSON. Of course, I could not do anything of the sort.

The CHAIRMAN. It would be entirely with you.

Senator JOHNSON. But I could not do it, because I would have to give my promise in advance that I would hold it confidential; and no man, the Secretary of State or anyone else, is going to tie my tongue on a matter that affects the people of this country.

The CHAIRMAN. You would not be tied any more than the doctor is tied as a witness before this committee.

Senator JOHNSON. Yes; but you constantly overlook the fact that he disclosed his telegrams himself.

The CHAIRMAN. That is, parts of them.

Senator JOHNSON. All right.

Senator HARRISON. I think we ought to settle this proposition one way or the other. It looks like a committee action, and if it is proper at this time and you want to have an executive session, I will make the motion.

Senator JOHNSON. I quite agree with what Senator Harrison says, that it ought to be settled and we ought to determine whether we are entitled to these telegrams. The record upon them now, I think, is very clear with the reasons of the gentleman who represents the State Department.

Senator HARRISON. Does the chairman prefer an executive meeting to pass upon the proposition?

The CHAIRMAN. We can go on now, and we can hold an executive committee meeting as soon as I can get them together. I could not get an executive committee meeting now, because the members of the Finance Committee have not been notified of it. We will try to have one this afternoon.

Senator JOHNSON. Very well, sir. I am ready to proceed or to do anything that the committee desires.

The CHAIRMAN. I would like to hasten on with it, because we have so much other business.

Senator JOHNSON. I will do the very best I can, so far as that is concerned. Thank you, sir.

I have covered, have I not, the telegrams concerning which you testified yesterday?

Mr. WHITE. You have, I think.

Senator JOHNSON. Do you recall any others than those I have spoken of?

Mr. WHITE. No, sir.

Senator JOHNSON. Let us return to the one of June 20, 1931. Will you state what was in that telegram?

Mr. WHITE. The telegram of June 19?

Senator JOHNSON. Received by you, you stated, on June 20, 1931.

Mr. WHITE. That is correct.

Senator JOHNSON. State from whom it was, please.

Mr. WHITE. The telegram was from the American legation in Bogota. It set forth the views of the President of Colombia. He was disturbed because the bankers, before paying over the last \$4,000,000 contracted for on June 30 and October 25, 1930, were seeking to raise the interest rate from 7 to 8 per cent. The President was very much disturbed regarding this. He went on to say to the minister that after the Barco concession had been passed by the Congress of Colombia, a matter which the Colombians thought would help the economic progress and prosperity of the country and improve their position, the Colombian public not differentiating between various American interests, he would find it very difficult to explain why as the first result thereafter the interest rate was raised 1 per cent.

Senator JOHNSON. He said, did he not, that he was very much disturbed that an American institution was not carrying out its agreement when the Barco concession and other outstanding disputes had been compromised or settled by him?

Mr. WHITE. No, sir. That was in the telegram of June 23.

Senator JOHNSON. In the telegram of June 20th he mentioned the Barco concession?

Mr. WHITE. That is right.

Senator JOHNSON. And he said that the Barco concession had been settled by the Congress?

Mr. WHITE. That after the Barco concession matter had been passed he was disturbed that the very first development thereafter should be a rise in the rate of interest.

Senator JOHNSON. You are very certain of that, are you?

Mr. WHITE. Yes, sir.

Senator JOHNSON. That the President of Colombia said on the 20th day of June, in the telegram—

Mr. WHITE. Excuse me, Senator. He said it on the 19th.

Senator JOHNSON. In the telegram that you received on the 20th day of June, 1931?

Mr. WHITE. That is correct.

Senator JOHNSON. That he was very much disturbed that at the very time or the very day after he had settled the Barco concession an American institution has raised the interest on him from 7 to 8 per cent?

Mr. WHITE. That is correct.

Senator JOHNSON. And that telegram you read to Mr. Lancaster, the attorney for the National City Bank?

Mr. WHITE. That is correct; with the exception of certain excerpts.

Senator JOHNSON. That did not relate to this particular matter?

Mr. WHITE. Yes, sir.

Senator JOHNSON. That is correct, is it not?

Mr. WHITE. Yes, sir; that related—they were not matters which I communicated to Mr. Lancaster.

Senator JOHNSON. Did they relate to this particular subject matter of investigation by this committee?

Mr. WHITE. I do not know that I am quite clear on what the subject matter is of the investigation.

Senator JOHNSON. By this committee?

Mr. WHITE. Yes.

Senator JOHNSON. Have you not had on your desk a copy of the resolution for a considerable period of time?

Mr. WHITE. No, sir.

Senator JOHNSON. You never have paid any attention to it?

Mr. WHITE. I have not had it; I have not seen it. I was asked to come here verbally when I was listening to the testimony on Tuesday.

Senator JOHNSON. You were listening to the testimony and you were asked subsequently to come here?

Mr. WHITE. That is correct.

Senator JOHNSON. You were listening to the testimony with some understanding of what we were investigating, were you not?

Mr. WHITE. You were investigating, as I understand it, the loan. This did not relate to the granting of the loan.

Senator JOHNSON. Did it relate to the National City Bank?

Mr. WHITE. Perhaps.

Senator JOHNSON. Do you know?

Mr. WHITE. It was certainly matter that might have been of interest to the National City Bank.

Senator JOHNSON. Did it relate to the loan that the National City Bank was making to Colombia?

Mr. WHITE. It did not relate to that particular loan; no, sir.

Senator JOHNSON. Did it relate to loans that were to be made to Colombia?

Mr. WHITE. It did not relate to loans that were to be made to Colombia.

Senator JOHNSON. What did it relate to?

Mr. WHITE. That I am not at liberty to disclose. I will gladly show it to you.

Senator JOHNSON. Of course. I beg you not to say that again, because I will indulge in a rejoinder that I would rather not indulge in. Please do not say that you are going to show it to me in confidence. I would not look at it in confidence. I have tried to make that plain. So I will take it for granted that you would show it to me in confidence, because my word would be inviolable, as it would be. Still, I would rather you would not say that you would show it to me in confidence. I understand your position.

Was there any matter that you have referred to that you did not read to Mr. Lancaster which related to the controversies of the Colombian Government with American institutions or any Americans at all?

Mr. WHITE. I do not understand what you mean by "referred to." In the testimony here?

Senator JOHNSON. No. The portion that you did not read. Was there any of the portion of the telegram that you did not read to Lancaster that referred to loans of the National City Bank or to controversies with Americans, either American institutions or American individuals?

Mr. WHITE. It did not refer to this particular loan, nor did it refer to any controversies with other American institutions.

Senator JOHNSON. Will you bring that telegram here and read to this committee what you read to Mr. Lancaster?

Mr. WHITE. My position is as stated, Senator.

Senator JOHNSON. You will not even bring that telegram and read simply from the telegram, retaining the custody of it yourself, exactly what you read to Mr. Lancaster from that telegram?

Mr. WHITE. No, Senator.

Senator JOHNSON. I am referring, so that there will be no mistake whatsoever, to the telegram that was received by you on the 20th day of June, 1931, relating to the National City loan to Colombia and which was read over the telephone, or a portion of it, at least, was read over the telephone to Mr. Lancaster; and, again, so that the record may be clear upon the point, I ask you, will you, retaining the custody of that telegram, bring it here and read to this committee what you read to Mr. Lancaster in New York?

Mr. WHITE. I will not.

Senator JOHNSON. You will not?

Senator JONES. As I understand it, you would read it on the same basis that you read it to Mr. Lancaster?

Senator JOHNSON. But he recited it.

Senator JONES. He read it to him in confidence. Now he says he will read it to us in confidence. Of course we do not want it that way, so far as that is concerned; but I understand that he is willing to read it to us on the same basis that he read it to Mr. Lancaster.

Mr. WHITE. Omitting the portion of it which I have not recited, it was read to Mr. Lancaster, and which I will give to you in confidence as I did to Mr. Lancaster.

Senator JOHNSON. My dear sir, you are not going to give me anything in confidence. I have tried to settle that point forty times.

Senator HARRISON. Did you enjoin upon Mr. Lancaster and Mr. Winston, when you read the contents of these telegrams, that they were not to communicate the contents to the other people interested in this loan?

Mr. WHITE. I did not read any telegram to Mr. Winston.

Senator HARRISON. Well, to Mr. Lancaster.

Mr. WHITE. I read but one telegram to Mr. Lancaster, and I gave him this information confidentially for his background, which he would naturally communicate to his associates on the same basis of confidence.

Senator HARRISON. You thought that he would communicate what you had told him to his associates?

Mr. WHITE. The substance of it; yes.

Senator JOHNSON. Then you read it to him in confidence to be retailed by him to his law firm and subsequently to the bankers of New York City who were engaged in making the loan to Colombia; is that correct?

Mr. WHITE. Not to be retailed to his associates in that law firm, but to be used by him in the decision which the bank would have to make regarding its position on President Olaya's complaint that it was raising the rate of interest and introducing a new element into the matter which was not covered in the loan agreement.

Senator JOHNSON. Who were interested in making the loan to Colombia?

Mr. WHITE. The syndicate was headed by the National City Bank and the First National Bank of Boston.

Senator JOHNSON. Who else were there in it at that time?

Mr. WHITE. I do not know, Senator. I heard in testimony here on Tuesday that the Continental Commercial of Illinois was interested.

Senator JOHNSON. Who else?

Mr. WHITE. I do not recall.

Senator JOHNSON. You know that Lazard Bros. of London was interested in it?

Mr. WHITE. I do know that.

Senator JOHNSON. You know Lazard Frères of Paris were interested?

Mr. WHITE. I do; but the decision was to be made in New York by the National City Bank. They were carrying on the negotiations with the Colombian Government.

Senator JOHNSON. With regard to this confidential communication, we have Mr. Lancaster to whom it was read; we have Mr. Winston to whom the substance of a prior telegram was communicated. Mr. Winston, by the way—is he a member of Mr. Lancaster's firm?

Mr. WHITE. I understand he is. He was not advised regarding the telegram we are speaking about.

Senator JOHNSON. But there was a prior telegram——

Mr. WHITE. On another matter.

Senator JOHNSON. In relation to this loan, however.

Mr. WHITE. To the earlier \$4,000,000 promised.

Senator JOHNSON. With Mr. Winston you were talking about the settlement of an English claim that was insisted upon by Lazard & Co.?

Mr. WHITE. I was talking to him in this way. The bankers agreed that if Colombia would fulfill certain conditions to improve the economic conditions the bankers would give them a loan. The President of Colombia stated that he had complied with those conditions and that then the bankers were insisting upon another condition which had not been mentioned before, namely, that before turning over the money a British gold mining claim should be paid. He complained about that, and I transmitted that complaint to the attorneys for the National City Bank.

Senator JOHNSON. That is, to Mr. Winston?

Mr. WHITE. To Mr. Winston, and then to Mr. Lancaster.

Senator JOHNSON. To both of them?

Mr. WHITE. To both of them; yes, sir.

Senator JOHNSON. Was Mr. Winston an official here at one time?

Mr. WHITE. He was Under Secretary of the Treasury.

Senator JOHNSON. Under Mr. Mellon?

Mr. WHITE. I believe so.

Senator JOHNSON. I am getting at this confidential communication——

Senator HARRISON. How long had Mr. Winston been out of the Treasury at that time?

Mr. WHITE. I do not know, Senator. I am not familiar with that, sir.

The CHAIRMAN. He left the department right after the settlement of the French debt.

Mr. WHITE. About 1925, I think.

The CHAIRMAN. 1924 or 1925.

Senator HARRISON. He was in the department during the funding of our foreign debts with France and England, was he not?

Mr. WHITE. I believe so. I could not state it of my own positive knowledge.

The CHAIRMAN. I know that he was.

Senator JOHNSON. Mr. Winston gets the substance of one of these confidential telegrams—

Mr. WHITE. He gets the point of view of the President of Colombia as to a complaint of his.

Senator JOHNSON. The substance of that telegram he got, didn't he?

Mr. WHITE. That was the substance of the telegram.

Senator JOHNSON. You telephoned the telegram substantially?

Mr. WHITE. Exactly.

Senator JOHNSON. There is no mistake between us on that. Mr. Lancaster gets verbatim a telegram with one small portion deleted. That is correct, is it not?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Mr. Winston and Mr. Lancaster were attorneys?

Mr. WHITE. Correct.

Senator JOHNSON. You desired them, of course, to communicate with their clients, the National City Bank, did you not?

Mr. WHITE. Exactly.

Senator JOHNSON. Why did you not communicate with them?

Mr. WHITE. Because we had never had any communication with the National City Bank on the matter. Business of the bank before the department is usually taken up by Mr. Lancaster. He comes down to Washington when they have matters of—

Senator JOHNSON. Are you not mistaken? Because your telegram that you received June 20, 1931, and that you read to Mr. Lancaster, was read to him after a member of your department had gone to New York and had seen Mr. Schoepperle of the National City. Is not that correct?

Mr. WHITE. That was a month prior, and this was a new matter which had arisen. The matter which was taken up in New York was the difficulty over the balancing of the budget. This was a question of the raising of the rate of interest.

Senator JOHNSON. But it all related to the loan?

Mr. WHITE. It did not, Senator. It related to a misunderstanding between the Government of Colombia and the bankers regarding the carrying out of an agreement made some months before.

Senator JOHNSON. Of course; an agreement for a loan?

Mr. WHITE. Exactly.

Senator JOHNSON. All of this controversy related to the confirmation of the loan by the National City Bank?

Mr. WHITE. Exactly; but the department's intervention in the matter was not as a loan matter but as endeavoring to compose a difference between a friendly foreign government and an American institution over the interpretation of a contract entered into between them some months before.

Senator JOHNSON. But you said to me that you had not taken up the matter at all with the National City Bank prior to June 20, 1931,

and I was calling your attention to the fact, merely that there may be no error in the record, that a month prior thereto, in May, a representative of your department went to New York and took up with Mr. Schoepperle certain differences that had arisen in respect to the loan.

Mr. WHITE. Let us get that straight, Senator. The Secretary of State spoke in New York with Mr. Lancaster on May 18. Mr. Lancaster went back to the bankers and discussed the matter with them, the officials of the bank. There was a misunderstanding. Mr. Lancaster telephoned and asked Mr. Matthews, who was in New York with the Secretary of State, to come to his office and explain it. He went to Mr. Lancaster's office, who took him in to see Mr. Schoepperle.

Senator JOHNSON. There is no dispute on that point, is there?

Mr. WHITE. The initiative did not come from him to go to see the bankers.

Senator JOHNSON. What did he go to New York for?

Mr. WHITE. He took documents up to the Secretary of State who in turn discussed the matter with Mr. Lancaster.

Senator JOHNSON. He went to New York on this matter, didn't he?

Mr. WHITE. He went to New York on this matter.

Senator JOHNSON. The Secretary of State discussed the matter with Mr. Lancaster, Mr. Lancaster subsequently had Mr. Matthews come to see Mr. Schoepperle?

Mr. WHITE. Exactly.

Senator JOHNSON. All right. There is no difference of opinion in that regard, then.

Mr. WHITE. The object of his going to New York was not to see the National City Bank. He went there to bring papers to the Secretary of State, and when he was there he was requested by the attorney of the National City Bank to come to the bank and straighten out the difficulty.

Senator JOHNSON. But he went to New York upon this National City Bank matter, did he not?

Mr. WHITE. That is correct.

Senator JOHNSON. At the request of the Secretary and, I assume, of your department?

Mr. WHITE. Correct.

Senator JOHNSON. The Secretary desiring to familiarize himself with the matter went himself to see somebody in connection with it?

Mr. WHITE. That is correct.

Senator JOHNSON. And after the Secretary had seen somebody in connection with this matter in New York, then subsequently Lancaster took to Schoepperle, Mr. Matthews of your department?

Mr. WHITE. That is correct.

Senator JOHNSON. There is no mistake there.

I am returning to the confidential communications. We have, first, the transmission of the substance of the telegram to Winston—

Mr. WHITE. Which telegram are you referring to?

Senator JOHNSON. Not the June telegram; I am not speaking of that—but you have refused to produce either, so I am speaking of both at this time. There was the transmission of the substance of

the telegram to Mr. Winston. Subsequently, in June, the reading verbatim of a large part of the telegram from your representative in Bogota to Mr. Lancaster. That is correct, is it?

Mr. WHITE. Yes, sir.

Senator JOHNSON. And at that time you were seeking to have the National City Bank carry out its contract; were you not?

Mr. WHITE. We were seeking to compose the differences that had arisen between the National City Bank and the Colombian Government regarding the execution of the contract.

Senator JOHNSON. And you had expressed the view, had you not, that Colombia was right concerning it?

Mr. WHITE. We certainly did as to certain phases of it.

Senator JOHNSON. And you sought, therefore, to have the National City consummate its contract with Colombia?

Mr. WHITE. Exactly.

Senator JOHNSON. You knew at that time that connected with the National City Bank in this adventure was a Boston house and a Chicago house?

Mr. WHITE. No, sir. I did not know until the testimony here on Tuesday that the Chicago house was in it.

Senator JOHNSON. Whom did you know were connected with it at that time?

Mr. WHITE. At what time are you referring to, sir?

Senator JOHNSON. The last date, in June, June 20.

Mr. WHITE. At the last date I knew that they were bringing in Lazard Freres and Lazard Bros. in London.

Senator JOHNSON. You knew that they had brought them in in March when the trouble arose, did you not?

Mr. WHITE. No, sir. They were trying to bring them in in March for the payment that was eventually made on June 30, but they were not then in connection with the payment that was made on March 17; and that was the one, the \$4,000,000 advanced, bringing the total advances to Colombia from \$12,000,000 to \$16,000,000. I mention that to differentiate between the two. At that time the only ones that I knew were in it were the National City and the First National of Boston. When I expressed to Mr. Lancaster not having heard from Mr. Winston, I called him up, as I testified yesterday, on the 13th of March and related the matter to him regarding the mining claim. I did not hear from him. I called him up and he was out of town but I spoke with Mr. Lancaster on the 14th. Mr. Lancaster said he would look into the matter. On the 14th when I spoke to him the only ones that I knew were in it were the National City Bank of New York and the First National Bank of Boston.

On the 16th day of March Mr. Lancaster telephoned to me in reply to give the point of view of the bankers. They recognized that asking for the settlement of this mining claim was not covered by the agreement of June 30, 1930, as it related to that particular payment. Therefore, they were paying over the money on that day. At that time he told me by way of explanation of the bank's attitude as to why they had made this statement, that to carry out the supplementary agreement of October, 1930, to advance the \$4,000,000 which raised the total from \$16,000,000 to \$20,000,000, one of the stipulations was that they should be able successfully to enlarge their group, and they were trying to get Lazard Bros. and Lazard Freres into the

group, and one of the conditions made by them for their coming into the group was that this matter should be settled. That was at the time I was advised that that particular advance had been made, and Lazard Bros. and Lazard Freres were not concerned with it and did not participate, as I understand it, in the \$4,000,000 advanced which brought the total from \$12,000,000 to \$16,000,000.

Senator JOHNSON. Did you learn subsequently that Lazard Bros. and Lazard Freres became a part of the syndicate?

Mr. WHITE. I can not say that I was definitely categorically informed to that effect.

Senator JOHNSON. I did not ask you whether you were definitely and categorically informed to that effect. I said, did you learn it?

Mr. WHITE. No, sir; I did not. I assume they were, because the final \$4,000,000 was paid.

Senator JOHNSON. The June \$4,000,000?

Mr. WHITE. Yes.

Senator JOHNSON. How long before the June \$4,000,000 was paid did you learn that Lazard Bros., of London, and Lazard Freres, of Paris, had become a part of the syndicate?

Mr. WHITE. I was never definitely informed of it. The only mention that I recall of them was in the conversation of March 16 with Mr. Lancaster, when he told me that they were paying over the previous \$4,000,000.

Senator JOHNSON. Did you not learn that they had become a part of that syndicate?

Mr. WHITE. I assumed they had.

Senator JOHNSON. All right.

Mr. WHITE. I did not know it definitely.

Senator JOHNSON. You assumed that on June 20, did you not?

Mr. WHITE. Yes.

Senator JOHNSON. So you had at that time an assumption, or a knowledge about it, as you please, that in the syndicate of bankers that were lending were the National City Bank, the Boston bank, the Illinois bank—

Mr. WHITE. I did not know about that.

Senator JOHNSON. Lazard Bros., of London, and Lazard Freres, of Paris?

Mr. WHITE. Exactly; but let me say that at the time Mr. Lancaster advised me that the negotiations would be carried on entirely by the National City Bank and that they represented the group, they and the Boston bank, and that the decisions would be made by them.

Senator JOHNSON. So your confidential communication was made with that knowledge on your part?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Did you say to Lancaster that "This is now held in deep secrecy and confidence"?

Mr. WHITE. I said, "I give you this information confidentially, for background in order that you may be informed of the situation."

Senator JOHNSON. And you had been having conversations frequently with him before that time, had you not?

Mr. WHITE. Yes, sir.

Senator JOHNSON. In relation to this matter?

Mr. WHITE. Yes, sir.

Senator JOHNSON. And you had had conversations with others in relation to the matter, had you not?

Mr. WHITE. I do not recall a conversation with anybody besides Mr. Lancaster, except the one talk with Mr. Winston on the previous matter of March 13.

Senator JOHNSON. I think we have sufficient for the record concerning the particular dispatches now, and I am ready to take that up with the committee whenever it sees fit subsequently to take the matter up.

I turn with you, now, to some of the loans that have been made and ask you concerning the State Department's attitude or its knowledge respecting those loans.

Let us go to Chile. Do you know anything about the loans that were made to Chile?

Mr. WHITE. Only in this way, that before the loan was made or any loan that involved flotation of foreign bonds, the department is consulted by the bankers and advised that this loan is in contemplation and asked if the department has any objection. That inquiry is made either by the bankers themselves or by their attorneys. The department, if there is no international interest involved, states that it has no objection to offer or that it is not interested.

Senator JOHNSON. It takes this negative policy as has been testified to during the progress of this investigation?

Mr. WHITE. Exactly.

Senator JOHNSON. Do you recall specifically any of the loans that were made to Chile?

Mr. WHITE. I do not recall them offhand; no.

Senator JOHNSON. Do you recall any difficulty that arose down there over the nitrate concession?

Mr. WHITE. I do not. I know there have been negotiations recently, but the Department of State has not come into that matter at all. We have had certain information sent us. The minister in Santiago has kept us informed, as all our missions are instructed to keep us informed.

Senator JOHNSON. Do you recall, in connection with the Cosach that there was any loan floated by Chile?

Mr. WHITE. There was not a loan, because there was no flotation of bonds. Or if there were bonds, they were all held by the bankers; they were not offered to the public. I do not know of any public offering of bonds in this country.

Senator JOHNSON. None at all?

Mr. WHITE. No, sir.

Senator JOHNSON. Are you familiar with the present state of the Chilean loans?

Mr. WHITE. They are in default.

Senator JOHNSON. Are you sufficiently familiar with the difficulties which exist over the Cosach Co. to state whether or not the controversies that exist in respect to that concession have had anything to do with the defaulting of the loans?

Mr. WHITE. No, sir. I can not say that I know that they had any effect on the loans.

Senator JOHNSON. Do you have in your possession the messages to the Congress of Colombia by the President of that country?

Mr. WHITE. We may have them in the files of the department; I do not know. I do not recall having seen them. But we do ordinarily get documents of that sort. Sometimes they are sent direct by the legation; sometimes by a system of exchange through the Smithsonian Institute; in which event I think the documents are kept in the Congressional Library.

Senator JOHNSON. Have you paid any attention whatsoever to the loans that have been defaulted by Chile?

Mr. WHITE. We have made no representations about that.

Senator JOHNSON. Have you done anything at all regarding them?

Mr. WHITE. There is nothing to be done; no sir. At this time there are no steps that could be taken.

Senator JOHNSON. Have you done anything whatsoever with respect to the defaulted loans there?

Mr. WHITE. No, sir.

Senator JOHNSON. Have you made any investigation?

Mr. WHITE. Of what sort?

Senator JOHNSON. Of any sort.

Mr. WHITE. None that I know of. I, personally, have made none, and I do not know of any having been made by the department.

Senator JOHNSON. The reason for that is because you have a definite policy in respect to foreign loans, I presume, by which you have naught to do with them save in the first instance to express whether or not there is a political objection to the loan?

Mr. WHITE. Quite so. We do not pass on a business proposition.

Senator JOHNSON. You do not pass upon any phase of the loan save the political phases?

Mr. WHITE. That is correct.

Senator JOHNSON. But, of course, if you find that there is some particular matter that involves American citizens in a foreign country, you take up that particular matter with the government of that country?

Mr. WHITE. We do.

Senator JOHNSON. You spent quite a bit of time, did you not, upon the Colombian loan?

Mr. WHITE. Not as a loan, Senator.

Senator JOHNSON. I know; but composing differences.

Mr. WHITE. Composing differences, and the execution of a contract.

Senator JOHNSON. Is there any such thing as composing differences where people have invested in the United States and have lost their money by investment in foreign securities?

Mr. WHITE. That is a matter that depends upon the economic condition of the country and will have to be worked out as soon as the situation changes for the better and permits it.

Senator JOHNSON. The other loans that are in default; is there any one of them with which you are familiar or concerning which you have made any investigation?

Mr. WHITE. I have not personally; no, sir.

Senator JOHNSON. Has the department?

Mr. WHITE. I do not recall any. A negative answer, of course, is not conclusive.

Senator JOHNSON. Were you familiar with the Bolivian loan?

Mr. WHITE. At the time it was issued it was submitted to the department in the usual routine manner.

Senator JOHNSON. Did you know that any portion of the Bolivian loan was to be devoted to paying for armaments?

Mr. WHITE. I knew that a portion of it was to liquidate an outstanding debt owed Vickers & Co., and that the Bolivian Government, in order to liquidate its debt, was making arrangements, in getting the loan, to cut down or curtail the Vickers contract and not to accept any more armament than that already delivered at that time, with the possible exception of armaments under sub-contract by Vickers which they were unable to cancel. In other words, in getting this loan, to liquidate their outstanding indebtedness, they were cutting down as much as possible with the consent of Vickers, an outstanding contract which had been made some time before, and any armament not already delivered which could be canceled was being canceled and not delivered or purchased.

Senator JOHNSON. Did you or did the State Department know, prior to the making of this loan, that any portion of it was to be used for armaments?

Mr. WHITE. No, Senator, except as I have stated.

Senator JOHNSON. Did you know those facts beforehand, before the loan was consummated?

Mr. WHITE. We knew the purpose of the loan that was stated; but that is always stated in the agreement. The department does not enter into loans as to how they shall be spent or from the point of view of a business risk.

Senator JOHNSON. Has the department taken any stand upon loans for the purpose of obtaining armaments?

Mr. WHITE. The department has taken a position against selling munitions—

Senator JOHNSON. No; I am not speaking of that.

Mr. WHITE. But I do not recall—

Senator JOHNSON. Assuming that there came to you a contract that was to be made with some foreign government, the proceeds of which were to be devoted to purchasing armaments.

Mr. WHITE. I think we would make objection to that. In this case, however, I will point out that this was not for the purchase of armaments, but for the payment of indebtedness which already existed—

Senator JOHNSON. For armaments.

Mr. WHITE. And that no new armament would be purchased, and that this was an outstanding claim against the government which had to be liquidated to straighten out their financial position.

Senator JOHNSON. All that would be necessary, then, in order to get around the policy of the department, would be for a government to incur a liability for arms, and then having incurred the liability, you would approve the loan because it had been incurred. Is that correct?

Mr. WHITE. Every case would be determined on its merits, sir.

Senator JOHNSON. I have no doubt about that. But I am taking a hypothetical case. In this instance of Bolivia. There was an outstanding claim of Vickers & Co. against the Bolivian Government for armament. That amounted to about what sum?

Mr. WHITE. I do not recall.

Senator JOHNSON. It was some millions, was it not?

Mr. WHITE. Yes; perhaps \$5,000,000. I do not remember the figures.

Senator JOHNSON. It was settled, I think, for \$5,000,000. I think you are correct on that. That fact was known to the department at the time it gave its negative consent to the loan, was it not?

Mr. WHITE. I think so.

Senator JOHNSON. And whatever the loan that was made the department was perfectly familiar with the fact that a certain sum was to go for armament?

Mr. WHITE. Not for any new armament.

Senator JOHNSON. For old armament. It does not make any difference whether it is old or new. It was an armament bill; that is obvious. At that very time was there not some difficulty between Bolivia and one of her neighbors in respect to territory?

Mr. WHITE. There has been a boundary dispute for a great many years. It was not active at that time.

Senator JOHNSON. When did it become active?

Mr. WHITE. It became active on either December 3 or 5, 1928.

Senator JOHNSON. Do you recall when the Bolivian loan was made?

Mr. WHITE. I do not, but it was some time, as I recall, in 1927.

Senator JOHNSON. In 1928, after the loan was made, the dispute became active, as you say?

Mr. WHITE. Yes, sir.

Senator JOHNSON. You are a member of the commission, are you not, upon that particular matter?

Mr. WHITE. There is no commission, Senator, in regard to that.

Senator JOHNSON. What do you call it, then? Maybe you object to the word "commission." Is there not a group of people who are acting together to compose differences?

Mr. WHITE. Exactly.

Senator JOHNSON. Are you not one of them?

Mr. WHITE. I am.

Senator JOHNSON. You object to the word "commission." What do you call it?

Mr. WHITE. It is merely an informal group of representatives of five nations. I will give you the history of the matter, if it will clear up the situation in your mind, Senator.

On December 3 or 5, 1928, as the case may be, there was an attack by Paraguay on a Bolivian fort. This fort was destroyed. The conflict arose just at the time that the Pan-American Conference of Arbitration and Conciliation was meeting. This conference offered its good offices to both parties to compose the differences, and a sub-committee of the conference was appointed. There were representatives on this committee of the United States, Chile, Peru, Brazil, and Uruguay. As the result of their negotiations an agreement was signed between the two countries on January 3, 1929.

The agreement was signed January 3, 1929, setting up a commission of inquiry and conciliation relative to settling the incident of December 3 or 5, whichever it was, of 1928, and the duration of the commission was limited to six months. The commission met on March 13, 1929, and finished its labors on September 13, 1929, a conciliation agreement having been signed by the two parties the day

previously, namely, September 12, 1929, but this did not settle anything except the particular incident of December of 1928. And therefore the five governments that were represented on this commission of arbitration and conciliation, namely, United States, Mexico, Cuba, Colombia, and Uruguay—offered their good offices to both parties to settle the matter. There were negotiations back and forth regarding the matter, and at the present time the representatives of Bolivia and Paraguay are in the United States and are endeavoring to reach an agreement between them in regard to a nonaggressive pact. I have been asked by them to preside over their meetings in the exercise of our good offices. That is the status.

Senator JOHNSON. And you have been thus presiding?

Mr. WHITE. I have been doing so ever since November 11, 1931.

Senator JOHNSON. Do you recall when the original loan was presented to your department?

Mr. WHITE. I do not recall the date; no.

Senator JOHNSON. I am not speaking of the particular date, but of the fact whether there was any discussion about the Vickers claim.

Mr. WHITE. I do not recall.

Senator JOHNSON. Do you know whether or not any investigation was made regarding the Vickers claim by your department?

Mr. WHITE. I do not. I know the position was taken that the department did not pass on these loans as a business proposition, and hence had no observations to make or objections.

Senator JOHNSON. And that was the extent of it. It simply said they had no objection.

Mr. WHITE. That is right.

Senator JOHNSON. Do you know whether there was any portion of the loan to be used for military roads as well?

Mr. WHITE. I do not. That was not stated, so far as I can recollect, in the purpose for the loan at the time. I may be mistaken in that, and I have not seen any of the papers in connection with it for some time.

Senator JOHNSON. Are you familiar at all with the loans that have been made in Brazil?

Mr. WHITE. Only in a routine way as they came from the bankers or their attorneys to know whether or not we would have objection.

Senator JOHNSON. At the end of last year I wrote a communication to the Department of State asking if they would be kind enough to furnish me a list of concessions in Latin America, and I understood from what was said by Mr. Livesey, of your department, on day before yesterday you are unable to furnish that.

Mr. WHITE. I do not recall that. I mean, I have not seen the letter. I do not know anything about it except as I heard Mr. Livesey discuss the matter with you here, and I understood that he was trying to collect and see what we have along that line.

Senator JOHNSON. He said he was unable to do it.

Mr. WHITE. I did not understand that. I will say this, Senator Johnson: We have not got copies of all concessions in Latin America. We have only those that are filed with us voluntarily.

Senator JOHNSON. Do you know of any concessions that Americans have in Chile?

Mr. WHITE. Well, I do not know whether they are concessions or not. I know of American enterprises operating there, but whether they are operating on a concession basis or not I can not say.

Senator JOHNSON. If there is any great enterprise operating in Chile what is it?

Mr. WHITE. Well, there are nitrate companies, and—

Senator JOHNSON (interposing). The larger one is Cusack.

Mr. WHITE. That is the largest one, I believe.

Senator JOHNSON. And that is really Guggenheim Bros.

Mr. WHITE. Yes, sir.

Senator JOHNSON. Do you know of any concessions that have been granted in any other countries?

Mr. WHITE. There are concessions in almost all countries.

Senator JOHNSON. Tell me of some of the largest ones in Latin America.

Mr. WHITE. There are concessions in Peru. But again I say I do not know whether they are operating on a concession basis or what the basis of it is. There are large American interests operating in copper in Peru. There are coffee plantations in Colombia, and perhaps railroads, and port works. There are port works in Peru. But again I can not say whether they are on a concession basis or not. There have been a great many port works constructed in other countries. And there are telephones which are operated and owned by Americans in a number of Latin American countries, and cable, radio, wireless, telephone.

Senator JOHNSON. That is, concessions for all these things have been accorded American companies, have there not?

Mr. WHITE. Again I tell you I can not say that they are all on a concession basis. They are operating in these countries, but whether on a concession basis or not I can not definitely inform you, because I do not know.

Senator JOHNSON. Do you know Mr. Metzger of the Tropical Oil Co.?

Mr. WHITE. I do not.

Senator JOHNSON. Have you at any time had any communications with him in respect of Colombian matters?

Mr. WHITE. I have not.

Senator JOHNSON. Did Mr. Rublee report to you that Metzger was one of the authors of any law down there?

Mr. WHITE. He did not.

The CHAIRMAN. Do the Guggenheims have concessions in order to produce copper in Chile?

Mr. WHITE. Of that I am not sure. I do not know whether it is on a concession basis or not. I presume it is but I can not say definitely.

The CHAIRMAN. They have been producing copper there for 30 years or more, have they not?

Mr. WHITE. That is correct.

The CHAIRMAN. And do Chileans have stock in that company?

Mr. WHITE. Yes, or at least I understand that it is a stock company.

The CHAIRMAN. Isn't that stock issued on the basis of concessions from Chile, or was it a Chilean corporation?

Mr. WHITE. I am sorry I can not answer that question. I do not know whether it is a Chilean or an American corporation.

Senator HARRISON. But it is at least controlled by American interests?

Mr. WHITE. Yes.

Senator JOHNSON. Did Mr. Caffrey report to you at any time that the Colombian authorities were not anxious to conclude the Barco concession?

Mr. WHITE. I do not recall that he did.

Senator JOHNSON. Do you recall receiving any communication from Mr. Caffrey in which he stated that the Colombian Congress was very reluctant to grant it?

Mr. WHITE. I certainly remember that there was opposition in the Colombian Congress, that it did not go through unanimously.

Senator JOHNSON. Do you recall any message sent by President Olaya to the Colombian Congress saying it was essential that the Barco concession be granted in order that further loans might be made to Colombia?

Mr. WHITE. I do not.

Senator JOHNSON. Did you ever learn anything to that effect from any communications sent to you or otherwise?

Mr. WHITE. No. I heard mention made in the testimony here on Tuesday something to the effect that there was a newspaper report last August. That was the first I ever heard of it.

Senator JOHNSON. I think what you refer to is a report that appeared in the New York Times, but that is not just exactly the matter that I referred to, although it has some relation to the matter.

Mr. WHITE. That I had not heard of until you mentioned it.

Senator JOHNSON. You had not seen the New York Times article, had you?

Mr. WHITE. No, sir.

Senator JOHNSON. You know nothing about it?

Mr. WHITE. No, sir.

Senator JOHNSON. Are you familiar with individuals in Bogota outside of the American legation?

Mr. WHITE. The only one I know is the President of Colombia who was the minister in Washington for eight years.

Senator JOHNSON. Do you recall receiving a telegram from Mr. Caffrey at any time stating that the Colombians were proceeding with their negotiations with the Gulf Oil Co. mainly because they believed the Department of State desired them to do so?

Mr. WHITE. I do not recall that.

Senator JOHNSON. Have you any recollection whatsoever of any telegram of that sort?

Mr. WHITE. I have not. There might be such a telegram but if so I do not know of it.

Senator JOHNSON. You say there might be?

Mr. WHITE. My answer is a negative one. I just don't know.

Senator JOHNSON. Will you bring here at 2 o'clock when we return after lunch, if we do then return, or to-morrow morning, or whenever we return, I mean your telegram of February 17, 1931, from Caffrey in relation to this particular matter under investigation?

Mr. WHITE. My position in regard to the production of telegrams is what I have already stated. I do not know, however, whether there is such a telegram as this or not.

Senator JOHNSON. And you are unable to say from your recollection whether or not you ever received any wire from Mr. Caffrey of the character I have indicated.

Mr. WHITE. Exactly.

Senator JOHNSON. Do you know whether or not you ever received any telegram from Mr. Caffrey in which he said the Colombian Government desired or would be delighted to have a free hand in the Barco matter?

Mr. WHITE. I do not.

Senator JOHNSON. Do you deny that any such telegram was received by the State Department?

Mr. WHITE. I can only say that I do not know of it.

Senator JOHNSON. Do you recall any telegram containing that matter or any other matter of this sort, that they felt they could release the territory under very favorable conditions to other oil concerns, if the legation were to withdraw its support from the proposed Gulf Oil Co. contract?

Mr. WHITE. I have never heard such a statement before to my knowledge.

Senator JOHNSON. You know nothing about any such wire whatever?

Mr. WHITE. No, sir.

Senator JOHNSON. Did you receive in January in relation to the Barco concession any telegrams from Mr. Caffrey?

Mr. WHITE. In January of this year?

Senator JOHNSON. In January of 1931.

Mr. WHITE. Yes; we did.

Senator JOHNSON. Do you recall any of them?

Mr. WHITE. As I stated in my testimony yesterday I recall that Mr. Rublee, who was carrying on the negotiations with the owners of Barco, or the company that has the Barco concession, did request Mr. Caffrey to cable up and say that if the company would give in on certain points an agreement between the company and the Government could probably be arrived at.

Senator JOHNSON. And that information you received in January of 1931?

Mr. WHITE. In January or February.

Senator JOHNSON. From whom?

Mr. WHITE. From the American minister.

Senator JOHNSON. So that in January or February of 1931, before there was any difficulty with the National City Bank in respect of its loan, you were receiving wires from the American minister concerning the Barco concession. Is that correct?

Mr. WHITE. Most certainly.

Senator JOHNSON. Do you recall the American minister at Bogota advising you that Samuels who was the representative of the National City Bank in Bogota, was very much concerned over the alleged political activities of a gentleman named Jefferson who represented the First National Bank of Boston?

Mr. WHITE. I do not recall that.

Senator JOHNSON. Do you recall a man named Jefferson in connection with the matter at all?

Mr. WHITE. I just recall that Mr. Jefferson was the representative, as testified to by Mr. Matthews here on yesterday, of the First National Bank in Bogota.

Senator JOHNSON. That is, you mean the First National Bank of Boston in Bogota.

Mr. WHITE. Quite so.

Senator JOHNSON. And you knew, did you not, from the communications you had received from Mr. Caffery, that Jefferson was interested in the loan there as well as the National City?

Mr. WHITE. Oh, yes.

Senator JOHNSON. Do you recall in 1930 receiving wires from Mr. Caffery in regard to the Barco concession?

Mr. WHITE. I do not recall it, although it is quite possible. It was the natural thing for the minister to make report regarding any matter of American interest.

Senator JOHNSON. Do you recall any communication from the American Minister in 1930, at any time during that year, in which he spoke of a loan agreement, and that larger loans could be negotiated if there were an oil settlement and a settlement of the Barco dispute?

Mr. WHITE. I do not recall any such message.

Senator JOHNSON. Have you recently looked over all of your communications?

Mr. WHITE. I have not looked over all of the communications.

Senator JOHNSON. Hasn't your department been engaged in the last week investigating the entire situation down there so far as your records disclosed?

Mr. WHITE. We went through the records to find out exactly the part played by us in connection with the National City Bank matter and the Barco matter.

Senator JOHNSON. You went through your records, did you, or did you say just partially?

Mr. WHITE. I say we went through the records to find out our connection, what action if any had been taken.

Senator JOHNSON. How long have you been engaged in that investigation or examination of your records?

Mr. WHITE. Well, it has not been going on continuously, but the papers were sent for in the index bureau on last Saturday.

Senator JOHNSON. And since that time you have made a very close examination of all records and papers in the State Department concerning the loan.

Mr. WHITE. We have gone through it as well as we could in the short time at our disposal.

Senator JOHNSON. Well, have you a fair recollection now of the communications that you received?

Mr. WHITE. I have of the ones which I have just related to you and which I related in my testimony of yesterday. Whether there were incidental matters sent in, other information to the department, that I did not go into.

Senator JOHNSON. Do you know who the Tropical Oil Co. is?

Mr. WHITE. No, sir. I have heard the name but do not know who it is.

Senator JOHNSON. Do you know whether or not they made any loan at any time in Colombia?

Mr. WHITE. I do not know it.

Senator JOHNSON. Do you know what the Andean Pipe Line is?

Mr. WHITE. I can not tell where it goes from, or to, but I do know that there is an Andean corporation that has a pipe line to bring petroleum to the coast, but just what part of the coast it terminates and from what field it comes I am unable to say.

Senator JOHNSON. Do you know whether it had anything to do with the payment of royalties or advances to the Colombian Government?

Mr. WHITE. I am not familiar with that.

Senator JOHNSON. Did you not follow with some degree of closeness Bolivian loans?

Mr. WHITE. No, Senator. I stated that they came to us in the usual routine way. I say there was no political interest involved and we simply said we had no objection.

Senator JOHNSON. Do you know whether or not Ulen & Co. received a concession in Bolivia after the 1922 loan was floated?

Mr. WHITE. Well, I can not say from definite knowledge. Ulen & Co. have extensive works in a number of countries, and I think perhaps they have carried on in Bolivia, but I can not say of my own personal knowledge.

Senator JOHNSON. Do you know whether or not the Standard Oil Co. of New Jersey got a concession in Bolivia after that big loan for about one-third of its territory?

Mr. WHITE. I do not know. I have never seen the contract.

Senator HARRISON. Did you say something about one-third of its territory?

Senator JOHNSON. Yes, sir.

Do you know how large a concession the Standard Oil of New Jersey has there?

Mr. WHITE. No, sir.

Senator JOHNSON. Have you ever investigated the matter in order to ascertain?

Mr. WHITE. I have not.

The CHAIRMAN. What was your answer?

Mr. WHITE. I know that the Standard Oil Co. is operating in Bolivia, but I do not know the terms of their concession if they have one, or just how they are operating there.

Senator SHORTRIDGE. Is there any production of oil to any extent in Bolivia?

Mr. WHITE. So far as I know, it is very little, if anything. But of that I am not certain. I know that the Bolivian Government, from what the Bolivian Minister told me recently here in Washington, is very anxious to have more exploitation in Bolivia in order to develop the country.

Senator HARRISON. When were those concessions in Bolivia granted?

Mr. WHITE. That I do not know.

Senator HARRISON. Has it been recently?

Mr. WHITE. I can not say; I do not know.

Senator JOHNSON. That is the very reason, as I will show to the committee, that I have been endeavoring to get a list of concessions.

The State Department says it can not furnish such a list. I have asked the Department of Commerce for it, but am unable to obtain it. Indirectly I hope to obtain it and present it to the committee, but it must be by indirection because the State Department say they have no list of concessions in Latin America, or have no record of the concessions there.

Mr. WHITE. I do not say that we have no records at all. I say that we have some of them, but if we have a list of concessions generally I have never seen it.

Senator JOHNSON. I do not know what you mean by that answer.

Mr. WHITE. You asked if I had seen this concession or knew of this concession.

Senator JOHNSON. Well, I am now speaking more particularly of a list of concessions generally, and I say the State Department informs me that they have no list of concessions generally.

Mr. WHITE. That is quite true.

Senator JOHNSON. You misunderstood what I had said.

Mr. WHITE. Yes; I thought you asked did we have copies of all contracts and concessions.

Senator SHORTRIDGE. Does the State Department regard it as a part of its duties to keep a record of all concessions granted to Americans by foreign countries?

Mr. WHITE. No; only if they are sent to us. For instance, if they are published in the official gazette of the country, which corresponds to our Congressional Record, then we have them. We have all those official publications. And if they are published in the press of a country the legation will always clip them out and transmit them to us for our information and files. Sometimes the companies will also file a copy of a concession with the State Department for its information. But we have never asked that these be given to us, and there is no general request out that we be kept advised regarding them.

Senator JOHNSON. Do you know who floated the 1922 loan in Bolivia?

Mr. WHITE. The Equitable Trust Co.

Senator JOHNSON. Do you know what bank that is as generally understood?

Mr. WHITE. It is now merged with the Chase National Bank.

Senator JOHNSON. But was it then understood to be a Rockefeller bank?

Mr. WHITE. I do not know.

Senator JOHNSON. Do you know whether or not, without considering its extent, that a concession was granted in Bolivia to the Standard Oil Co. of New Jersey?

Mr. WHITE. Please repeat that question.

Senator JOHNSON. I am not asking you now about the extent of the concession, but do you know that a concession was granted to the Standard Oil Co. of New Jersey in Bolivia?

Mr. WHITE. No, sir. As I stated previously, I know that the Standard Oil Co. is operating in Bolivia, but whether they are operating on a concession basis or how otherwise I do not know.

Senator JOHNSON. Do you know when they began their operations in Bolivia?

Mr. WHITE. No, sir; I do not.

Senator JOHNSON. Do you know whether or not after the Peruvian loan was made any American company or association received a concession in that country?

Mr. WHITE. I have no knowledge.

Senator JOHNSON. Do you recall that one loan was described as a tobacco loan, or do you recall?

Mr. WHITE. I do not remember the details of it. I do remember a loan described as a tobacco loan.

Senator JOHNSON. Do you know whether or not any American tobacco company received any concession there subsequently?

Mr. WHITE. I do not.

Senator JOHNSON. Are you familiar with the Salvador loan?

Mr. WHITE. Well, only on the basis of recollection going back to about 1923 when the loan was completed.

Senator JOHNSON. Do you know in what condition the Salvador loan is at the present time?

Mr. WHITE. So far as I know, the interest and sinking fund payments have been made up to date.

Senator JOHNSON. They have been made up to date?

Mr. WHITE. Yes.

Senator JOHNSON. Were you in touch at one time with the Commerce Department in reference to foreign loans?

Mr. WHITE. I personally was not.

Senator JOHNSON. Was your department?

Mr. WHITE. The Department of State consults the Commerce and Treasury Departments regarding everything, or at least it did until recently. Then there was a different system inaugurated with which I am not fully familiar.

Senator JOHNSON. Are you aware of the fact that the Commerce Department objected or expressed the unwisdom of the Colombian loans?

Mr. WHITE. I do not recall that they did as regards the Colombian loans.

Senator JOHNSON. You have no recollection on that score at all?

Mr. WHITE. No.

Senator JOHNSON. Do you recall whether or not the Commerce Department suggested the unwisdom of the Sao Paulo loans?

Mr. WHITE. I remember that the coffee valorization was not looked upon with favor by the Department of Commerce, and as I recall it the loan was not consummated, was not even presented to the State Department, so that we took no position regarding it. I do not recall any other objection on the part of the Department of Commerce regarding Brazilian loans.

Senator JOHNSON. Aren't you aware of the fact that they strongly objected to these Brazilian loans in the first instance?

Mr. WHITE. No, sir; I am not.

Senator JOHNSON. And that there was something like a rather long discussion between your department and the Commerce Department in respect of them?

Mr. WHITE. No, sir.

Senator JOHNSON. Do you recall that they objected to the Bolivian loans?

Mr. WHITE. Yes, sir; I do recall that they objected to the Bolivian loans.

Senator JOHNSON. And expressed their view that they were unwise?

Mr. WHITE. That was the view expressed by an official of the Department of Commerce, I believe.

Senator JOHNSON. Who was that official of the Department of Commerce?

Mr. WHITE. I can not remember exactly. It may have been Mr. Grosvenor Jones, but I am not positive on that point.

Senator JOHNSON. What did the Department of State do when the Department of Commerce expressed its view as to the unwisdom of the loans?

Mr. WHITE. The Secretary of State took the position that the department does not pass and never has passed on foreign loans as a business matter, and that unless there was some governmental or political interest involved the Department of State would take no position regarding the loan.

Senator JOHNSON. Am I to understand, or this committee to understand, that if one of the departments of our Government, after an investigation of a particular matter, such as a loan, says to the State Department it is unwise for that loan to be floated in this country, that the State Department nevertheless would continue its negative policy and permit such a loan to be floated without suggesting your position in the matter?

Mr. WHITE. As to the Department of Commerce, it took the official position, as I recall it, so far as to state that unless the State Department knew of some reason of a diplomatic nature on the matter why the loan should not be issued, that they withdrew their objection, or did not continue in their objection. The department stated, as I recall it: We do not pass on loans as a business proposition, that there is no public interest involved, and therefore there is no objection to the loan.

Senator JOHNSON. I want to get that very plain, if I may, please. Do you mean to say that if there came to the Department of State a request concerning a loan, and you knew the loan was absolutely rotten and that American citizens would be by virtue of that fact defrauded of very large sums of money, notwithstanding that the Department of State would do nothing or say nothing in respect to the matter?

Mr. WHITE. We have no authority of law to stop Americans from loaning money to foreign countries, or to stop Americans from investing their money in such enterprises any more than we can stop them from buying State or municipal bonds in the United States, or bonds of corporations in the United States.

Senator JOHNSON. So that you would say absolutely nothing in respect to the matter?

Mr. WHITE. We do not pass on any of these loans.

Senator JOHNSON. I am asking you that if there came to you a request in relation to a loan that was absolutely rotten, and that would rob American citizens by virtue of being floated, under those circumstances would the State Department say nothing in relation to your own position in that matter or your opposition to that?

Mr. WHITE. That is a hypothetical question, Senator Johnson. We have to decide each matter on its merits. But if we got a loan such

as you describe we would certainly not say there was no objection. But the most of the loans that are floated do not become rotten until afterwards. It takes a lot of examination to find out what they will be.

Senator JOHNSON. What is the policy of the State Department on that matter?

Mr. WHITE. We have never been approached with such a case.

Senator JOHNSON. You have been confronted by a case where the Department of Commerce told you the loan was unwise and ought not to be floated?

Mr. WHITE. They said they did not think the loan was wise. That was an official of the Department of Commerce. I do not recall that the official position of the Department of Commerce was not in favor of the loan, that it was such as to require the vetoing of the loan.

Senator JOHNSON. Very well. Did you make any investigation to ascertain that fact?

Mr. WHITE. The Secretary of State took the position that the Department of State would not go into loans as a business proposition.

Senator JOHNSON. And so you made no examination or investigation?

Mr. WHITE. Exactly.

Senator JOHNSON. Notwithstanding what a related department of the Government had to say in respect of the matter, you would allow the loan to go out to the American public?

Mr. WHITE. There was a letter from the Department of Commerce before we did that.

Senator JOHNSON. What is it that your associate there desires to correct you on?

Mr. LIVESEY. Just before I came up to the table Mr. White had stated that the Department of Commerce had said that if there was some diplomatic reason why this should be done the Department of Commerce would not insist on its objection. Their actual statement was something to the effect that if there was some diplomatic reason, or if in view of its position of not opposing loans on their merits, the Department of State did not desire to express an objection, then the Department of Commerce would not insist upon its objection.

Senator JOHNSON. What are you talking about, the Bolivian loan?

Mr. LIVESEY. Yes, sir.

Senator JOHNSON. Is there any other correction you wish to make?

Mr. LIVESEY. No.

Senator JOHNSON. You are at liberty to do so if you wish, because I want our testimony here to be accurate. I do not want to have any one of you left under any misapprehension, or to indulge in any answer that is in any degree inaccurate.

Mr. WHITE. I am glad to have Mr. Livesey make the correction on this. The Department of Commerce advised the Department of State regarding that loan. After formerly having raised the objection it is advised the Department of State in writing that if there was some diplomatic reason why the loan should be granted, or if in view of the position of the department that it did not pass on the merits of loans, the Department of Commerce would not insist

upon its objection. There was no diplomatic reason involved. The department's only position was that it did not pass upon the merits of loans. Therefore, in view of that the Department of Commerce's point had been met, and the Secretary of State advised the interested bankers that we had no objection.

Senator JOHNSON. Suppose there had been objection by the Department of Commerce, what would you have done?

Mr. WHITE. That is a different matter.

Senator JOHNSON. That is the reason I asked you about it.

Mr. WHITE. I can not answer a hypothetical question. Each proposition is determined upon its merits.

Mr. JOHNSON. Do you know of any instance where the Department of Commerce objected to a loan and you made simply your stereotyped answer that there was no objection?

Mr. WHITE. I do not know of any.

Senator JOHNSON. Do you remember the Uruguay loan?

Mr. WHITE. I do not.

Senator JOHNSON. Have you any recollection that the Department of Commerce or yourselves took any action in respect to that?

Mr. WHITE. I have not.

Senator JOHNSON. But you do remember their Colombian circular?

Mr. WHITE. Yes, sir.

Senator JOHNSON. And that that circular was very decidedly against the wisdom of making the loans?

Mr. WHITE. As I understand the circular it expressed the view that Colombia had overborrowed until it had arranged its financial situation, or adjusted its financial situation.

Senator JOHNSON. Do you remember any conversation or consultation with the Department of Commerce in reference to that matter?

Mr. WHITE. I do not.

Senator JOHNSON. Were there any other defaulted loans with which you are familiar, or rather which you can speak of at all?

Mr. WHITE. I am familiar with them only as they came through as routine matters.

Senator JOHNSON. I will read you an article that appeared in the New York Times of August 8, 1931, and will ask you whether or not you are familiar with it:

Bogota, August 7.—Summing up the year's record and analyzing Colombia's position for the press, President Olaya Herrera said to-day he was optimistic regarding Colombia's future because of the stability of Colombia compared with other Latin American governments.

He admitted the seriousness of the State of Antioquia's fiscal situation, but rejected the moratorium proposal and urged further struggles to overcome the difficulties.

The President reiterated his confidence in eventual benefits of the Gulf Oil concession, and recalled Secretary of the Treasury Mellon's advice to him to settle the petroleum problems to hasten Colombia's recovery.

Do you recall that article?

Mr. WHITE. I do not, except as you mentioned it in the hearings last Tuesday.

Senator JOHNSON. Do you recall, leaving that article out of question, a statement that was made to you at that time by President Olaya concerning the Gulf Oil concession?

Mr. WHITE. I do not.

Senator JOHNSON. Who follows the local press for you in your department?

Mr. WHITE. The Washington press, do you mean?

Senator JOHNSON. I mean the Colombian press in this instance.

Mr. WHITE. Mr. Matthews.

Senator JOHNSON. Somebody follows the press of each of these countries?

Mr. WHITE. No, they do not. We get clippings from the press. They are sent to us by our legations.

Senator JOHNSON. From the Minister of Colombia at Bogota?

Mr. WHITE. Yes.

Senator JOHNSON. Do you recall any clipping in regard to a statement made on the 7th day of August by President O'aya?

Mr. WHITE. I understand that one has been in the department, and I have seen a portion of it but have not read it.

Senator JOHNSON. Do you understand that it contains matter that is substantially as I have read from the New York Times article?

Mr. WHITE. I could not say without comparing it, but there is something of that kind.

Senator JOHNSON. Will you look at it and see, or do you consider the clipping a confidential communication?

(There was laughter in the hearing room, apparently from some of the newspaper men.)

Senator JOHNSON. You would have no hesitancy in looking at the clipping, I take it, and seeing if you have that clipping?

Mr. WHITE. No, sir.

Senator JOHNSON. Mr. Chairman, may we now take a recess for lunch?

The CHAIRMAN. The committee will stand in recess until 1.30 o'clock p. m.

(Whereupon, at 12 o'clock noon, Friday, January 15, 1932, the committee recessed until 1.30 o'clock p. m. the same day.)

#### AFTER RECESS

The hearing was resumed at the expiration of the recess.

The CHAIRMAN. The committee will come to order and we will proceed with the hearing.

Senator JOHNSON. Senator Costigan has some questions which he desires to propound, and he will of course propound them himself.

#### TESTIMONY OF FRANCIS WHITE, ASSISTANT SECRETARY OF STATE, WASHINGTON, D. C.—Resumed

Senator COSTIGAN. Mr. White, there have been a number of references to Latin-American loans from which the public might draw the inference that all such loans were alike, and that all Latin American countries have defaulted. Are there exceptions among the South American countries?

Mr. WHITE. Yes, Senator; there are. There are loans that have not defaulted. I can not give you a list of them just off-hand. The Argentine Government loan has not defaulted.

The CHAIRMAN. Would it not be easier to mention those that have defaulted, without trying to name those that have not?

Senator COSTIGAN. The exceptions are rather important from the viewpoint of those countries. There appears to be some feeling that there has been universal condemnation of the loans of South American countries in the testimony given before this committee.

Mr. WHITE. The interest has not defaulted on the Uruguayan loan, although some of the sinking fund has.

Senator COSTIGAN. The Argentine payments of interest have been made faithfully?

Mr. WHITE. Yes; and the sinking fund, also, in Argentina. I think that applies to all their provincial loans, too, but I would not want to make that categoric statement for fear my memory is not correct. In Uruguay the interest is being met. The Colombian National Government loan is still paying interest. The Cuban loans are paying interest and sinking fund. The Haitian loans are paying interest and sinking fund. The loans to the Dominican Republic are paying interest, but not sinking fund. The Salvador loans are paying interest and sinking fund. The loans of Panama are not in default.

Senator COSTIGAN. Are not in default?

Mr. WHITE. Are not; and I think the same applies to Costa Rica and to Honduras. Venezuela has no foreign indebtedness. The loans that are in default, therefore, are those of Ecuador, which have been in default for a great many years—railroad bonds. That is a default of long standing. The recent defaults are Peru, Chile, Bolivia, and a number of Brazilian loans. I do not know whether there are some Brazilian loans which are not now in default or not. On that point I can not be sure.

Senator COSTIGAN. It may be that you have overlooked some country in your specification. If so, your remarks are not to be taken as all-inclusive?

Mr. WHITE. Exactly, Senator.

Senator COSTIGAN. Am I correct in inferring from your testimony that the State Department has only interested itself in business contracts dealing with a certain variety of loans in Latin American countries?

Mr. WHITE. In expressing no objection? Is that what you mean, Senator?

Senator COSTIGAN. Yes.

Mr. WHITE. That applies to all the countries except the ones with which we have treaty relations. Those countries are Haiti, the Dominican Republic, and Cuba.

Senator COSTIGAN. Do you deal with instances in which anything is involved except bonds, in affirming or disapproving loans?

Mr. WHITE. No, sir; we do not.

Senator COSTIGAN. Why do you limit yourself to cases of bonded obligations, if you do?

Mr. WHITE. The bankers' transactions are so frequent; credits are extended, commercial credits as well as Government credits, that we thought it not practicable to go into them. I am not familiar with the reasons at the time the policy was drawn up. I was out of the country, and I am not familiar with the reasons leading up to the establishment of that policy.

The CHAIRMAN. Did you have reference to credits extended to foreign countries in the purchase of goods?

Senator COSTIGAN. Mr. Chairman, I have in mind only that variety of transactions with which the State Department is concerned. I am curious to know why the Department confines itself to a particular variety of securities.

Mr. WHITE. Senator Costigan, Doctor Feis, the economic adviser of the department, can give you an authoritative statement on that. He is here and prepared and anxious to make a statement regarding that, if you so desire.

Senator COSTIGAN. Senator Johnson and you, Mr. White, have developed some remarkably interesting facts. My concern at this time is directed rather toward legislative questions. With those in mind, may I ask you when the State Department began to object to certain loans?

Mr. WHITE. I am familiar only with the South American loans, and my knowledge is, therefore, not complete. Doctor Feis can give you definite answers.

It is my impression that no objection was made until we ran into flotations for countries which had not funded their public debt to the United States.

Senator COSTIGAN. About what year was that?

Mr. WHITE. I should say that was around 1922—1921 or 1922.

Senator COSTIGAN. I assume that you have been with the department much longer than Doctor Feis?

Mr. WHITE. I have; yes. But he has made a particular study of this question.

Senator COSTIGAN. What were the grounds on which objections were originally made and the grounds on which they have been subsequently made.

Mr. WHITE. In the case of European loans—

Senator COSTIGAN. I am thinking primarily at this time of Latin American obligations.

Mr. WHITE. The only one that I can recall that objection was made to, and that was not so much—well, it was a loan proposal—was in connection with Honduras. In 1922 or 1923 or thereabouts, there was a loan that was an exploitation proposition more than an out and out straight loan matter.

Senator COSTIGAN. Will you define what you mean by "exploitation" as you now use the word?

Mr. WHITE. I have not seen any papers in connection with it since the time it arose, but at that time Honduras had been in default for a period of over 50 years on its outstanding indebtedness. Originally the loan was issued under circumstances in which the Government got a very small percentage of the total amount for which it obligated itself. The principal amount in default, I think, was about \$25,000,000, and with accumulated interest it ran up into well over \$100,000,000. This loan could have been settled on a basis of about \$3,000,000, with the bondholders. The bonds were mostly held in Great Britain. The original loan which was in default was a British loan, and the representatives of the bondholders, as I recall it, had expressed a readiness and willingness to settle this loan somewhere around three to five million dollars, as I recall it, and this proposal was to settle it for around ten or fifteen million dollars; and there was no clear explanation as to where any of the difference was to go and what was to be done with it.

Senator COSTIGAN. This transaction occurred about 1922?

Mr. WHITE. 1922 or 1923; I am not sure.

Senator COSTIGAN. You recall no prior approval or disapproval of such transactions by the State Department?

Mr. WHITE. I do not, offhand, Senator.

Senator COSTIGAN. Subsequently loans in Europe, I gather from your remarks, were dealt with by the department?

Mr. WHITE. Yes, sir.

Senator COSTIGAN. Were objections founded upon the same basis, namely, undue exploitation?

Mr. WHITE. That I do not know, Senator. I had nothing whatsoever to do with it. I have no knowledge as to it whatsoever.

Senator COSTIGAN. There have been some ugly words, such as "bribery" and intimations of undue commissions, used in this room in this hearing. I take it that we are all agreed that it is undesirable to have foreign transactions, on which the Government passes in any way, tainted by such suggestions. Has the department done anything to bring about a condition so that the public may actually know what is being done when a foreign loan is being floated in this country?

Mr. WHITE. The only thing I can say on that is that we have done nothing since the commission paid in connection with the Peruvian loan came to our attention on or about the 18th or 19th of September, 1930. We immediately asked a representative of the house issuing this loan to come to Washington, and we asked him whether it was true that this commission had been paid. He replied in the affirmative. There was nothing that could be done about that particular transaction then. The bonds had all been sold to the public some time prior. But a memorandum was prepared making a suggestion to the Secretary of State that in the future when a loan comes before the department the firm issuing it should be asked to state in writing that no commissions whatsoever were being paid to any Government officials or those connected with them. This was immediately approved by Secretary Stimson. It has not since been acted upon because there have not been any public flotations coming before the department since that time.

Senator COSTIGAN. Has the department formulated any rules which shall apply to every contract of this sort brought to the attention of the State Department?

Mr. WHITE. Every contract of which nature, Senator?

Senator COSTIGAN. The kind on which the department has been passing—foreign loans.

Mr. WHITE. We do not pass on contracts. They do not come before us. We are not consulted regarding contracts as we are regarding bond issues; so that a contract, if we get it, is sent to us for our information after the transaction has been consummated. We are not consulted in advance or our opinion requested.

Senator COSTIGAN. Let me put the question in another way. Has the State Department formulated any rules with respect to foreign loans calling for the approval or disapproval of the department? That is, have you codified or have you definitely outlined the grounds on which you will approve or disapprove transactions?

Mr. WHITE. We only pass on them if there is a national interest of the United States involved; not as a business proposition. If

there is a national interest, such as indebtedness unfunded due to the United States—that was one of the conditions—or treaty obligations of the United States, for instance, in connection with Haiti or the Dominican Republic, where there is a treaty in force which brings about a treaty relationship between the United States and that country regarding loans.

Senator COSTIGAN. When you find this public interest have you any standards which you apply in determining whether a loan should be approved or disapproved by the department? Are there any written rules? You have spoken of one, I think, already, in your testimony this afternoon; you have suggested that there should be some advance examination and some elimination of commissions.

Mr. WHITE. Not an advance examination, but a statement in writing from the issuing house or their attorney, stating that no such commissions have been paid or agreed upon in connection therewith.

Senator COSTIGAN. Precisely. Are there any other conditions in which the State Department is interested, or do you limit your interest to the question of whether commissions are or are not being paid?

Mr. WHITE. That is the only one with which I am familiar, Senator.

Senator COSTIGAN. Do you see any reason why other standards should not be defined for the purposes of the State Department?

Mr. WHITE. Of what nature, Senator?

Senator COSTIGAN. I am thinking now in terms of constructive legislation. Are there no other safeguards which should be thrown around these foreign loans? I had particularly in mind the matter of publicity. Is there any reason why the public should not have some opportunity before it is called upon to make an investment in these foreign securities, to know precisely what are the underlying conditions of the transaction?

Mr. WHITE. I see no reason at all, Senator, why there should not be complete knowledge regarding it.

Senator COSTIGAN. The department, so far as you know, however, has not sought to bring about that sort of relation between the parties to the transaction and the general public?

Mr. WHITE. No, because that relates to the worth of the bond issue as a business matter into which the Department of State would not enter.

Senator COSTIGAN. You see no objection to a requirement that there should be a reasonable lapse of time between the inauguration of such a loan and the completion of it, so that the public may be fully advised?

Mr. WHITE. On that I am not qualified to answer, Senator. It is my understanding that the bond market changing so after the loan is definitely agreed upon, there could not be much of a lapse, because conditions may change so that it would materially affect the price. But full information up to the time that the agreement is made I see no objection to. The only objection, of course, is that a banker, like anybody else, can not negotiate an agreement in public, just as a treaty can not be negotiated, each article discussed and each position taken back and forth. Once it is consummated, then it should be made public at once; and it is in our country, of

course, and submitted to the Senate where it is debated, and it has no force until the Senate gives its advice and consent.

Senator COSTIGAN. Does not the controversy which has arisen at this table with respect to the publicity of telegrams and other communications make it somewhat desirable to have the Government either go further into the question of these loans with a view to advising the public of their real nature, or to refrain altogether from the sort of relation to the loans which the State Department apparently had in the case of the Colombian loan?

Mr. WHITE. In that case, Senator, we were not taking any part as regards the loan as a loan. Our position was to try to bring about an agreement between a government and an institution regarding the carrying out of a contract entered into some months previously. It might arise in connection with a contract for any other thing—the purchase of telephone equipment or what not, for which a contract is made. The government involved represents to us that the American institution making it is, in their view, not living up to it. It states its case and we use our good offices to bring about an agreement.

Our action in that case was not from the point of view as a loan, but from the point of view of a nonfulfillment of an agreement with a foreign government which had complained to us and asked us to go into it.

Senator COSTIGAN. You are obviously and properly interested in what has actually happened?

Mr. WHITE. Yes.

Senator COSTIGAN. What I am endeavoring to direct your attention to is the larger question of governmental policy. Have you any judgment as to whether it is desirable to have the State Department interest itself more than it has done or less than it has done in these transactions?

Mr. WHITE. I do not see how we can interest ourselves more, Senator. If you do, you would pass on a loan as a business proposition. A loan when it is brought out is brought out presumably because it is a good investment; but it takes more prescience than any government official sitting at a desk can exert, to say "This loan is good and that one is not." And if an error of judgment is made, which can quite easily be done, then is not the Government of the United States in some way obligated for the mistaken judgment of the particular individual?

Senator COSTIGAN. You are coming to a point which seems to relate to the matter of policy. Is it not true that the practice of the State Department in passing upon certain foreign transactions has led the general public to assume that the security is ample and the investment is a good one?

Mr. WHITE. I think that, unfortunately, that has happened in many cases. There has been a misunderstanding, a failure to appreciate that the department looks at it purely from the point of view of political interest of the United States.

Senator COSTIGAN. Is that a desirable situation?

Mr. WHITE. It is not desirable. The only way it can be remedied is by further publicity as to exactly what the relationship of the United States Government is, or the Department of State, to these loans.

Senator COSTIGAN. That, I take it, is, in part, what Senator Johnson has been interested in during the last day and a half. How could such further publicity be secured?

Mr. WHITE. I am speaking now of publicity as to the department's attitude, the point of view from which the department looks at a loan.

Senator COSTIGAN. You do not favor further publicity, then, with respect to the underlying transaction?

Mr. WHITE. I am not qualified to say, Senator. I am not an economist nor a banker. I do not feel that I am qualified to answer that.

Senator COSTIGAN. What relation has the State Department had with other departments of the Government in passing upon these loans? Does it deal with the Commerce Department?

Mr. WHITE. The Commerce Department and the Treasury Department.

Senator COSTIGAN. The same papers that come before you pass before the Treasury and the Commerce Department?

Mr. WHITE. Yes, sir.

Senator COSTIGAN. Do you mean, for your combined judgment?

Mr. WHITE. No, sir. Usually information regarding a particular loan that is up at the moment is sent to both departments and they are requested to state whether they have any objection or not.

Senator COSTIGAN. Was that practice followed in regard to the Colombian transaction?

Mr. WHITE. No, Senator; that was not a bond issue. It was a bankers credit and did not come before the department for an expression of view.

Senator COSTIGAN. In matters of bankers credits as distinguished from bond issues—

Mr. WHITE. We are not consulted.

Senator COSTIGAN. The State Department is not consulted?

Mr. WHITE. No, sir.

Senator COSTIGAN. What departments of the Government are consulted on bankers credits?

Mr. WHITE. None, so far as I know.

Senator COSTIGAN. Is there any reason why bankers credits should be excluded from the rule which you apply to bond issues?

Mr. WHITE. As I said at the outset, I am not familiar with the reasons, when this policy was adopted back in 1921. I was not in the department. I do not know why that position was taken.

Senator COSTIGAN. Would you prefer that these questions be addressed to other witnesses?

Mr. WHITE. I would prefer that, Senator, because I have not gone into that subject or made a study of it.

Senator JOHNSON. I observed yesterday, Mr. White, that you were familiar with Spanish; is that correct?

Mr. WHITE. Yes, sir.

Senator JOHNSON. I am handing you now a message of President Olaya to the House of Representatives, printed in Spanish. I have before me a translation given to me by the Library. I would like you to follow me as I read it. This is headed Message of the Executive to the Chamber of Representatives with respect to the Chauv Folsom Contract. Do you know what that was?

Mr. WHITE. I do not recall it by that name. When it goes further on I may. It is undoubtedly the Barco.

Senator JOHNSON. It is the Barco. [Reading.]

President of the Republic, No. 209, Bogota, June 9, 1931.

*Honorable Representatives—*

If I read too fast you will stop me, if you please.

Mr. WHITE. It should be, "Office of the President of the Republic."

Senator JOHNSON. It is a message of the President, however, to the—

Mr. WHITE. That is undoubtedly a letterhead, like "White House" here.

Senator JOHNSON. Exactly. [Reading:]

*Honorable Representatives:*

On March 5 there was submitted for the consideration of the honorable Congress the contract signed by the Minister of Industries with the South American Gulf Oil Co. and the Colombian Petroleum Co. devoted among objects of importance to the exploitation of a part of the petroleum deposit owned by the Government north of Santander and to put an end to all suits against the nation actually present in progress in the supreme court of justice. With respect to the contract about the so-called Barco concession, litigation in which the nation has entered counter suits.

The stipulations of said contract were the subject of long, careful study by the minister who signed it, and the President of the Republic before approving it exercised serious patriotic zeal with the object of obtaining the best possible solution for the national interests. The contract when submitted for the study of the senate, and was referred to the committee on hydrocarbon. The committee on hydrocarbon formed the same personnel as of the last two sessions.

That committee, whose competency in all that relates to the technical and fundamental points of petroleum interests is assured by the fact of its having devoted long and laborious sessions to the petroleum law—

Mr. WHITE. There seems to be something wrong, Senator. Would you mind beginning that sentence again?

Senator JOHNSON (reading):

That committee, whose competency in all that relates to the technical and fundamental points of petroleum interests is assured by the fact of its having devoted long and laborious sessions to the petroleum law issued in the present here, devoted to the study of the contract all the time that had been allowed it to render its report—from the 5th of March until the 6th of April—on which date it returned it with a favorable report signed by all the members of the committee, two of which reserved the right of presenting some modifications in the course of the debate.

Inasmuch as in said document there was formulated an interpretation of each one of the clauses of the contract, the Minister of Industries gave a translation of the report of the committee to the contracting companies, and the latter indicated their assent to the interpretations set up in it, thus fixing clearly and precisely the scope and significance of the stipulation.

In the sessions of the committee, and in the studies performed by it, the attorney representing the nation in the suit which is being sustained against the companies and individuals who impugn the resolution of ineffectiveness of the said Barco concession, the attorney took part and his opinion, which is of great force for obvious reasons, sustains also the approval of the contract.

The report of the committee which was equally favorable was fully and extensively discussed in 23 sessions by the senate from all points of view which enter into the problem, judicial, commercial, international, and affecting the credit of the nation.

The senate ended by giving a favorable vote in the three regular debates.

After this prolonged analysis, the contract passed to the consideration of the house of representatives, and the committee to which it was referred for

study devoted itself to its consideration for eight days, which were then extended five days more.

As a result of this new and detailed examination of the contract, the chamber has devoted 12 public and 2 secret sessions to it, without having been able up to the present to decide upon the propositions of the resolution with which the reports rendered end, of which that of the majority of the committee is favorable, agreeing in recommending the formula adopted by the senate and accepted by the executive.

Coincidentally, the press, assemblies, important business men, many distinguished jurists, not a few commercial and industrial enterprises and associations of workers have given to the public extensive and numerous opinions, not merely on material which the contract covers, but upon points which might remotely or proximately be related thereto. It is competent to note that the great majority of judgments and opinions expressed have been definitely in favor of the desirability which the approval of the contract has for the country. Numerous and intelligent are the manifestations which the government, and also the chambers, have received in a similar tenor, it being apparent that the public opinion through the elements which in their majority form the social and economic force of the country, has approved and given its favorable opinion in the affair which the government concluded and the legislative sanction for which it is petitioning or asking Congress.

We have said what precedes, honorable representatives, in order to give basis to our affirmation that the contract entered into with the South American Gulf Oil Co. and with the Colombian Petroleum Co., has been sufficiently clarified in all its aspects, and for this reason the government feels itself with sufficient authority to ask the chamber, with all respect but with all emphasis, to express its decision upon the matter and to make known to the government, and also to the nation, whether it approves or disapproves the contract which is the subject of the present message, and of those of March 11 and April 7 directed to the chamber. On bringing to your attention to-day this new request, which is inspired only by serious interest for the welfare of the country, the executive believes that he can not be justly reproached with attempting to impose this resolution.

There is not in the parliamentary history of the Republic any business or problem so extensively debated, not even the most delicate and complex international treaties. If—although we are far from believing such a thing—the chamber should conclude that the executive and the Senate of the Republic have committed an error in signing the contract and conceding approval; let it make its will known in the form established by the constitution. The government would regret this profoundly because it has the deepest and firmest conviction of having presented a solution, which under the circumstances, considers and serves best the interest of the nation. But what would cause immense uneasiness and just anxiety in public opinion would be the indefinite extension of the sessions of Congress without arriving at any solution. The nation could not understand this attitude and it would run the risk of being considered as a voluntary and incomprehensible disregard of its duties.

The government would be false to the imperative dictates of its duties, if I did not repeat to you as I have had occasion to do formerly, that it considers the solution of this matter as one of the necessary steps in this complicated and difficult effort to bring about the economic and financial restoration of the Republic. In the present state of the life of peoples it is indispensable to contemplate the problem of credit with an international mind. Although there may be those who think that we can develop our wealth and provide for the well-being of our people without regard to the cooperation of other nations that assist us with the aid of their capital and join their efforts with ours for the exploitation of the natural resources that the Colombian territory possesses, the absurdity of such a thesis of isolation and hostility will not delay in making itself felt, and if we were to find instruction in the past, we should find sufficient proof that a mistaken orientation has delayed among us the development of our great sources of production and riches submitting us to cruel moments of anguish and crisis which have weighed upon and will continue to weigh upon the workers and directors of enterprises, without whose success it is impossible to think that our nation can maintain itself firm, united, and prosperous.

Referring especially to the litigation which has been developing since 1926 with regard to the so-called Barco concession, it is not inopportune to recall

that it has been, among those things that are of interest to Colombia, one that has received the greatest discretion—

I think that should be "discussion."

Mr. WHITE. "The greatest comment."

Senator JOHNSON. Correct me on anything that is wrong. [Continuing reading:]

It is not inopportune to recall that it has been, among those things that are of interest to Colombia, one that has received the greatest comment in the world of international affairs. All who are familiar with the publications which reflect the impressions and atmosphere of money markets know sufficiently well that scarcely did that litigation appear when it was considered that such difficulties could come to form an unfavorable element for the development of the credit activities of Colombia abroad. The bankers themselves, who at that time financed Colombia in New York, did not disguise that from that period it was a regrettable fact that these differences had appeared in acute form precisely when a company of ample solvency and great reputation was preparing to initiate work for the exploitation of those sources of wealth. For some time there existed the hope that the Government and the companies interested might arrive at a friendly and equitable solution of the controversy, but when this possibility disappeared and the relations between the two parties acquired a tone of increasing hostility, the incident again exercised most regrettable echoes. The Ministry of the Treasury in 1929 came to think—

Is that correct?

Mr. WHITE. Yes, sir.

Senator JOHNSON (continuing reading):

That the house of J. P. Morgan & Co might interest itself in loans which the Colombian Government desired at that time to promote. To ascertain the possibility of this, the Minister of the Republic to the United States was commissioned and, having interviewed the two chiefs of that house, Messrs. Lamont and Anderson—

Is that correct?

Mr. WHITE. Yes, sir.

Senator JOHNSON (continuing reading):

Messrs. Lamont and Anderson, the latter expressed that they were not contemplating—

Mr. WHITE. Excuse me, Senator. Not "the latter," but "these"—meaning both of them.

Senator JOHNSON. "These latter"?

Mr. WHITE. "These expressed," which means "these gentlemen expressed." It starts, "Messrs. Lamont and Anderson"—

Senator JOHNSON. "These gentlemen expressed"?

Mr. WHITE. Yes, sir.

Senator JOHNSON (continuing reading):

That they were not contemplating any operations and that it would be extremely difficult to bring about a consideration in the future of any business with Colombia. And, on entering upon a friendly analysis of the situation of our country, they indicated that litigation and differences such as those existing about the Barco concession accompanied by regrettable incidents, caused in the banking circles an impression of a definite opposition to the investment of capital in Colombia and to loans to its government.

Mr. WHITE. "Resistance," not "opposition."

Senator JOHNSON. "A definite resistance"?

Mr. WHITE. Yes, sir.

Senator JOHNSON. I think they are synonymous, are they not, merely as a matter of English?

"An impression of a definite resistance"—

I accept your word, though—

To the investment of capital in Colombia and to loans to its government. Without doubt, and upon this point the executive repeats without hesitation the phrase which he expressed in a former message, we persist in sustaining that our actions have been adjusted to propriety and justice, but if these controversies, which cause such an opinion in the powerful banking institutions whose word is heard and followed throughout the financial world, can be solved, as has been attempted, in a friendly and equitable agreement which may harmonize in a form acceptable to both parties, the interests of the nation and those of the companies, it is clear that a serious error would be committed in rejecting the solution obtained and launching the country again upon the hazards and difficulties of litigation and controversy the gravity and importance of which no one familiar with this question can doubt. It is necessary to make known with loyalty to the nation that if at this time the agreement expressed in the contract which the chamber is studying should be defeated it would be extremely difficult to bring about any friendly agreement by new efforts.

If it is always desirable to give force and effect to the elements which open opportunity to the credit of the country, even to those which might be considered collateral and indirect, but which serve to form a propitious and friendly atmosphere, that consideration is graver yet when we are traversing times of difficulty and crisis in which it is necessary to support the threatened national economy. The only effective and prompt means for preventing more accentuated disaster to the country is in the capital that opportunely and without delay we may be able to raise and which may come from abroad to give vigor to the public and private finance and to the activities of labor. Confident in the power of production and of the perspective of prosperity which was dissipated, but which can be reinvigorated, various of our departments pledged their credit and contracted large debts.

The ensuing depression places them in a serious and difficult situation, but sufficient and timely assistance can free them from these moments of travail and place them again on the road which may preserve public finance and so far as possible diminish the destructive effects which private fortunes have suffered, or place them in the position of working with tenacity, but with hope, in an effort toward reestablishment.

To cite two examples, the case of the Valle and Antioquia can be considered. The docks of Cartagena are reduced to rubbish, and the commerce of that port calls with insistence and with reason that an effort should be made to provide new ones.

This demand is not only a legislative provision authorizing them but also money to finance them in an amount that will run up to the million pesos."

Mr. WHITE. "Up to millions of pesos."

Senator JOHNSON (continuing reading) :

A similar necessity we face in Buenaventura to make of that city the urban center which corresponds with the port work built there with evident foresight and competency.

But not possessing the means to initiate seriously these public works, which would stimulate commercial activity and a renaissance of prosperity and well-being, it is necessary to have recourse, in one form or another, to the resources which the great international money market may furnish. Very well; if we approach them without allies, without friends, without being able to offer to the great institutions a prospect of probable industrial development, recommended by signatures which have prestige and attract bankers and financiers—

Mr. WHITE. "Attract the attention of."

Senator JOHNSON (continuing reading) :

And attract the attention of bankers and financiers, everything indicates that we shall find ourselves in a cold and indifferent atmosphere, and we shall surely find the disconcerting reply: "We are not interested."

I have presented to you with all frankness and loyalty the prospect which faces us. The Government considers that it would be a fatal mistake—in which may we not fall, if we wish to free the country from this period of difficulties and complications—that of failing to recognize voluntarily and persistently the opportunities of creating a favorable impression, eliminating

litigation and sealing on this occasion the agreements which facilitate reciprocal benefits in the exploitation now long delayed of the riches which the national territory possesses.

The Government on addressing to you the present message, desires only to serve opportunely and effectively the public well being. It supports before you the desirability to the Nation of approving the contract about which you have been deliberating the last months, and it insists on asking respectfully the representatives that their conviction having been formed, as it must be, and be that what it may, that they proceed to a vote in deciding this question. Faithful to the inspiration which has guided their actions, the President of the Republic and the citizens who form the Government feel it incumbent to make clear to the honorable honorable congress and the whole Nation that they have spared no efforts to take advantage of all the factors which may clear up the difficulties and complications on the national horizon and contribute to the restoration of confidence throughout the country. In a more peaceful present and a better future.

That is signed by Enrique Olaya Herrera and the various ministers of the Government whose names I do not read.

I offer in evidence this message of the President of Colombia. It has been translated from an official document in Spanish which this morning was received by me from a very distinguished lawyer of Bogota.

Mr. WHITE. May I make an observation as to that?

Senator JOHNSON. Do you want to discuss the message?

I want to put in another thing, and then I will discuss both of them with you quite at length. I am handing you now a newspaper, "El Tiempo," of August 7, 1931, issued at Bogota, Colombia. I call your attention to the interview with the President of the Republic, and I read, in order that I may be accurate in it, unless you are willing to accept it, the translation of the interview that has just been furnished me this morning by the Library of Congress.

The interview is headed Impressions of President Olaya Herrera on His First Year of Government—

Mr. WHITE. Regarding His First Year of Government.

Senator JOHNSON. Is that fairly accurate?

Mr. WHITE. Yes, sir.

Senator JOHNSON (reading):

The President is the foe of reelection and extension of the presidential period. "I am frankly optimistic over the future of Colombia," he says. He thinks that the moratorium was a mistake—

I presume that relates to the moratorium in Colombia.

and that the country has other means for saving itself. The case of Antioquia The petroleum policy and its results.

The Petroleum Policy and its Results, then, is the subhead:

Do you think, excellency—

This is a query propounded to the President—

Do you think, excellency—

Mr. WHITE. This is only a partial translation, I take it?

Senator JOHNSON. It has been given to me by the Library of Congress. I confess I was unable to translate it. The document came to me only this morning.

Mr. WHITE. I looked here [indicating] and it is different.

Senator JOHNSON. "Page 13," it states here, "The Petroleum Policy and its Results."

Mr. WHITE. Yes; I have it, Senator.  
 Senator JOHNSON (reading):

Do you think, excellency, that the prediction made by the government can be maintained when in discussing the Catatumbo contract it was stated that toward the end of the year the economic reaction would definitely begin?

I think that if we persist with determined mind and with faith in the vital forces of our nationality, if we succeed in successfully getting out of these difficult trials in which we now find ourselves by virtue of the natural repercussions of the world crisis, in part, if we succeed in putting into effect some measures which are being put forward to obtain help in order to ward off the dangers which besiege us at this time but which must not make us despair; once the economic and financial horizon of the world has cleared up there will be opened for Colombia an era of prosperity and well-being, a future which will hardly be surpassed by any other nation on the South American continent.

The negotiation which the congress approved concerning the Catatumbo will have as a result the freeing the country of a vast network of original complications of state in which this matter was before the negotiation, and which were translated into manifold difficulties for our industrial growth and our future political economy. The solution arrived at freed the position of the state in this matter from doubts and complications. Naturally these are results which will require time before they are appreciated in all their importance and in order that they may be worked out.

As to the manner that this policy influences or reverberates in the financial and economic problems there is no doubt that it is decisive.

When I visited the United States the last time after my election had been officially declared I was very politely received, both by the friends who I had made during my residence in that country and by other persons who, connected in some way with Colombia found an opportunity to get in touch with me, the President elect, and to discuss affairs of our country. They showed me great kindness. The Secretary of State, Mr. Stimson, gave me a dinner in the name of the Government, and among others, Mr. Mellon, Secretary of the Treasury, attended this dinner. We frankly discussed the problems of Colombia in which he showed his interest.

Mr. WHITE. "We conversed extensively."

Senator JOHNSON. "We conversed extensively" instead of "frankly discussed"?

Mr. WHITE. Yes, sir.

Senator JOHNSON. You and the Library disagree. I accept your version, you see. "We conversed extensively"—I think that is better still—"concerning the problems"?

Mr. WHITE. Yes, sir.

Senator JOHNSON (continuing reading):

Concerning the problems of Colombia in which he showed his interest. I told him we were facing a grave situation, due in part to the crisis which was beginning to be felt, due in part also to the fact that in the time immediately preceding this period the State had observed a policy of excessive investments in scattered works for which it was necessary for the government to compromise the foreign credit of the country. This is shown by our preoccupation in finding efficacious remedies which would permit us to remove these evils and avoid the stagnation or retrocession of our development and prosperity. Mr. Mellon then said to me: "Settle your pending questions on petroleum; decide fairly and justly the difficulties which have been presented in this respect; and once you have adopted a policy which gives stability to the industrial activities in this branch, there will be opened for Colombia no doubt, ample ways for its economic progress and for its financial restoration."

That these results are delayed everywhere is explainable—

Mr. WHITE. "Are still delayed" instead of "everywhere."

Senator JOHNSON. "That these results are still delayed everywhere"?

Mr. WHITE. "Still delayed," not "everywhere."

Senator JOHNSON. That these results are still delayed is explainable by the reasons which I have expressed, the crisis which affects the world, the tightness of all markets. I have faith in the future of our country if we have courage and sufficient resolution to persist in the work begun. I base this on the consideration that the matter is so grave and so fundamentally affects the very life of the great countries that no time will be lost in finding a remedy. In some form there must be a change when this moment arrives, the favorable influence will be felt in Colombia immediately.

Mr. WHITE. There is no quotation here.

Senator JOHNSON. There is in this. Do you want me to strike out the quotation mark?

Mr. WHITE. There is none here.

Senator JOHNSON. You will find it probably at the end of it. [Continuing reading:]

The prospects are favorable.

But do you not fear that if the condition of the national banking institutions gets worse it will be necessary to think of a moratorium for the nation itself?

Mr. WHITE. There seems to be something left out. Would you mind reading again just before that?

Senator JOHNSON. "But do you not fear——"

Mr. WHITE. Above that, Senator. I do not just follow it. There seems to be something in the Spanish that is left out. Would you mind starting up about two sentences above there again?

Senator JOHNSON. That these results are still delayed is explainable by the reasons which I have expressed, the crisis which affects the world, the tightness of all markets. I have faith in the future of our country if we have courage and sufficient resolution to persist in the work begun. I base this on the consideration that the matter is so grave and so fundamentally affects the very life of the great countries that no time will be lost in finding a remedy. In some form there must be a change when this moment arrives, the favorable influence will be felt in Colombia immediately.

Mr. WHITE. Is that the end of that paragraph?

Senator JOHNSON. Yes.

Mr. WHITE. There are seven more lines here.

Senator JOHNSON. Read them, if you wish.

Mr. WHITE. To make a clear translation I would like to read it over in Spanish first and then give you as clear a translation as I can. [Reading:]

And in proportion to the measure in which it is known how to resist the hard and difficult proof to which it has been submitted Colombia has to be—there is no doubt about it—one of the first nations to feel its reaction.

That is the end of the paragraph.

Senator JOHNSON. The next subhead is "The prospects are favorable."

Mr. WHITE. That is right.

Senator JOHNSON. By the way, do you know the custom of Latin-American countries with regard to newspaper men, the fact that they submit in writing their questions, and the answers may be made in writing too?

Mr. WHITE. I can not say whether that is done or not, Senator.

Senator JOHNSON. I was just informed by one of the newspaper men that that is the fact. Personally I know nothing about it. I have never been interviewed in Latin-American countries.

Mr. WHITE. I have been, Senator.

Senator JOHNSON. I am sufficiently familiar with the situation that exists in this country, but I confess that I know nothing about it in Latin-American countries. [Continuing reading.]

The prospects are favorable. But do you not fear that if the condition of the national banking institutions gets worse it will be necessary to think of a moratorium for the nation itself?

If this happened, possibly the situation of the country would have gotten worse, would have reached a very delicate and dangerous limit. But the moratorium, even in these circumstances, would not be a solution without dissolution.

Is that correct?

Mr. WHITE. That is correct, sir.

Senator JOHNSON (continuing reading).

The countries which have been forced to resort to such a formula have passed through intense disturbances and almost all have suffered rude and violent governmental transformations. In this aspect, Colombia is seen to be ahead of its sister countries. Its solid country, the national stability—

Mr. WHITE. No, "its peace," not "country." The word should be "peace" and not "country."

Senator JOHNSON. "Its solid peace?"

Mr. WHITE. That is right, sir.

Senator JOHNSON. I do not know exactly how peace could be solid, but at any rate, I will accept it.

Mr. WHITE. As a matter of fact, "solid" is not a good translation of it.

Senator JOHNSON. "Its solid peace"—

Mr. WHITE. "Well established" is really what it means.

Senator JOHNSON.

Its solid peace, the national stability, the very firmness of the Democratic régime which governs it, its civil education—

Mr. WHITE. "Civic."

Senator JOHNSON. All right.

Its civic education, all its factors—

Mr. WHITE. "All are factors which place it in special circumstances."

Senator JOHNSON. The sentence is not complete, but I care not. [Continuing reading:]

Moreover, since the moments of political agitation born of the electoral struggles have passed, there is now a general atmosphere of tranquility, of calm, and of work, suitable for the development of a beneficial administrative action. In affairs so complex and which on many occasions depend upon factors foreign to our wish, no one can guarantee the future in absolute form. Instead of proclaiming that catastrophe is the only way, it is indispensable to seek and find factors which will permit the development of a constructive plan to conquer the existing difficulties. This has been and will be the endeavor of the present Government of Colombia.

I offer that as a part of the record.

(The translation of interview with President Olaya of Colombia, referred to and submitted by Senator Johnson, is here printed in the record as follows:)

#### IMPRESSIONS OF PRESIDENT OLAYA HERRERA ON HIS FIRST YEAR OF GOVERNMENT

The President is the foe of reelection and extension of the presidential period. "I am frankly optimistic over the future of Colombia," he says. He thinks—

that the moratorium was a mistake and that the country has other means for saving itself. The case of Antioquia. The petroleum policy and its results.

#### THE PETROLEUM POLICY AND IT RESULTS

"Do you think, excellency, that the prediction made by the Government can be maintained when in discussing the Catatumbo contract it was stated that toward the end of the year the economic reaction would definitely begin?"

"I think that if we persist with determined mind and with faith in the vital forces of our nationality, if we succeed in successfully getting out of these difficult trials in which we now find ourselves by virtue of the natural repercussions of the world crisis, in part, if we succeed in putting into effect some measures which are being put forward to obtain help in order to ward off the dangers which besiege us at this time but which must not make us despair; once the economic and financial horizon of the world has cleared up, there will be opened for Colombia an era of prosperity and well-being, a future which will hardly be surpassed by any other nation on the South American continent.

"The negotiation which the Congress approved concerning the Catatumbo will have as a result the freeing the country of a vast network or original complications of state in which this matter was before the negotiation, and which were translated into manifold difficulties for our industrial growth and our future political economy. The solution arrived at, freed the position of the State in this matter from doubts and complications. Naturally these are results which will require time before they are appreciated in all their importance and in order that they may be worked out.

"As to the manner that this policy influences or reverberates in the financial and economic problems there is no doubt that it is decisive.

"When I visited the United States the last time after my election had been officially declared, I was very politely received both by the friends whom I had made during my residence in that country and by other persons who, connected in some way with Colombia, found an opportunity to get in touch with me, the President-elect, and to discuss affairs of our country. They showed me great kindness. The Secretary of State, Mr. Stimson, gave me a dinner in the name of the Government, and among others, Mr. Mellon, Secretary of the Treasury, attended this dinner. We conversed extensively concerning the problems of Colombia, in which he showed his interest. I told him we were facing a grave situation, due in part to the crisis which was beginning to be felt, due in part also to the fact that in the time immediately preceding this period, the State had observed a policy of excessive investments in scattered works for which it was necessary for the Government to compromise the foreign credit of the country. This is shown by our preoccupation in finding efficacious remedies which would permit us to remove these evils and avoid the stagnation or retrocession of our development and prosperity. Mr. Mellon then said to me: 'Settle your pending questions on petroleum; decide fairly and justly the difficulties which have been presented in this respect; and once you have adopted a policy which gives stability to the industrial activities in this branch, there will be opened for Colombia no doubt, ample ways for its economic progress and for its financial restoration.'

"That these results are still delayed is explainable by the reasons which I have expressed, the crisis which affects the world, the tightness of all markets. I have faith in the future of our country if we have courage and sufficient resolution to persist in the work begun. I base this on the consideration that the matter is so grave and so fundamentally affects the very life of the great countries, that no time will be lost in finding a remedy. In some form there must be a change when this moment arrives, the favorable influence will be felt in Colombia immediately."

#### THE PROSPECTS ARE FAVORABLE

"But do you not fear that if the condition of the national banking institutions gets worse it will be necessary to think of a moratorium for the nation itself?"

"If this happened, possibly the situation of the country would have gotten worse, would have reached a very delicate and dangerous limit. But the moratorium, even in these circumstances, would not be a solution without dissolution. The countries which have been forced to resort to such a formula have passed through intense disturbances and almost all have suffered rude

and violent governmental transformations. In this aspect, Colombia is seen to be ahead of its sister countries. Its solid peace, the national stability, the very firmness of the democratic régime which governs it, its civic education, all are factors which place it in special circumstances. Moreover, since the moments of political agitation born of the electoral struggles have passed there is now a general atmosphere of tranquillity, of calm, and of work, suitable for the development of a beneficial administrative action. In affairs so complex and which on many occasions depend upon factors foreign to our wish, no one can guarantee the future in absolute form. Instead of proclaiming that catastrophe is the only way, it is indispensable to seek and find factors which will permit the development of a constructive plan to conquer the existing difficulties. This has been and will be the endeavor of the present government of Colombia."

Senator JOHNSON. Is it not the policy of the State Department never to interfere in pending lawsuits in foreign countries?

Mr. WHITE. It is the policy of the department to follow all American interests.

Senator JOHNSON. That is not what I asked you. I asked you, is it not the policy of the State Department never to interfere in lawsuits in foreign countries where the courts of foreign countries have taken jurisdiction of the parties and of the subject matter?

Mr. WHITE. That is correct.

Senator JOHNSON. Prior to Mr Mellon's acquisition of the Barco concession had there been any intervention concerning the Barco concession on the part of the State Department?

Mr. WHITE. I do not know your reference to Mr. Mellon. I am not familiar with his holdings.

Senator JOHNSON. Well, call it the Gulf Co., then.

Mr. WHITE. The Gulf Co. acquired an option and the contract was concealed just before the option was exercised.

Senator JOHNSON. You know I did not ask you that, if you will pardon me, please.

Mr. WHITE. I am just thinking out loud to clear up my own mind. There was therefore, no occasion to take any action up to that time, and none was taken.

Senator JOHNSON. Are you not aware of the fact that the Doherty interests had the Barco concession and had it for a period of 8 years before Mellon acquired them?

Mr. WHITE. There was no dispute up to that time.

Senator JOHNSON. Are you not aware that there was dispute concerning it?

Mr. WHITE. I am not.

Senator JOHNSON. You are not aware of it at all?

Mr. WHITE. No, sir.

Senator JOHNSON. At any rate, Mr. White, there was no intervention of the State Department up to the time of the acquisition of the Barco concession by the Mellon interests?

Mr. WHITE. By the Gulf Oil Co.?

Senator JOHNSON. By the Gulf Oil Co. You make a distinction between the Gulf Oil Co. and the Mellon interest?

Mr. WHITE. We only look into a company to know whether it is an American company or not, and not who is the owner of it. We never look into that ownership.

Senator JOHNSON. Is it your purpose to indicate that you did not know that the Mellons were interested in the Gulf Oil Co.

Mr. WHITE. I may say that I have never known what holdings he has. It was knowledge that—

Senator JOHNSON. That is not what I am asking you. Do you mean to say that in 1928, when first the State Department intervened, that you had no knowledge, your department had no knowledge, that the Mellons were interested in the Gulf Oil Co.?

Mr. WHITE. We had no official knowledge.

Senator JOHNSON. What do you call official knowledge?

Mr. WHITE. There were no documents before the department.

Senator JOHNSON. But you did know who were the proprietors of the Gulf Oil Co., did you not?

Mr. WHITE. It was stated in the public press.

Senator JOHNSON. Why, of course. There is no use of our splitting hairs in this way.

Mr. WHITE. No, sir. The only point I want to make in this is that the department considers each case that comes before it on its merits, irrespective of—

Senator JOHNSON. Let us concede that; but up to 1928 it had never considered the Barco concession case at all, had it?

Mr. WHITE. It had not been brought before it, to my knowledge, up to that time.

Senator JOHNSON. It was when the Gulf Oil Co., of which the Mellons are the proprietors, owned it in 1928, that the first intervention occurred?

Mr. WHITE. At the request of the Carib syndicate.

Senator JOHNSON. At the request of the Carib syndicate; and the Carib syndicate, as you said, was, in your opinion, owned by J. P. Morgan & Co.?

Mr. WHITE. I did not say that. That was not in my testimony.

Senator JOHNSON. You do not know who were interested in that?

Mr. WHITE. No, sir.

Senator JOHNSON. How did you become interested in the Carib syndicate?

Mr. WHITE. The Carib syndicate brought their case before the department.

Senator JOHNSON. Who were the Carib syndicate that brought their case before the department? You must have inquired who they were. Were they strangers to you?

Mr. WHITE. We simply ascertained that it was an American corporation.

Senator JOHNSON. But you did not ascertain anything about who was interested in it?

Mr. WHITE. The department never does that. Our interest is simply to know that it is American owned and controlled.

Senator JOHNSON. Who brought it before you first?

Mr. WHITE. The attorneys for the company, Sullivan & Cromwell.

Senator JOHNSON. And it was brought first by Mr. Winston, was it not?

Mr. WHITE. Not that I know of.

Senator JOHNSON. Was it brought by Mr. Olds?

Mr. WHITE. Mr. Olds was Under Secretary of State at that time.

Senator JOHNSON. By whom was the Carib syndicate brought into the State Department?

Mr. WHITE. By Messrs. Sullivan & Cromwell.

Senator JOHNSON. But what individual of Sullivan & Cromwell?

Mr. WHITE. I can not answer that, Senator, because I was out of the country at the time.

Senator JOHNSON. Who knows that fact?

Mr. WHITE. I do not know.

Senator JOHNSON. Does Mr. Matthews know the fact?

Mr. WHITE. He was not in the department at that time.

Senator JOHNSON. Does anybody in the department know?

Mr. WHITE. I presume the letter regarding it would show.

Senator JOHNSON. You have been looking over the letters in relation to this particular matter. Don't you know?

Mr. WHITE. No, sir; I did not look over all.

Senator JOHNSON. You have no idea who brought it up, except that it was the Carib syndicate in 1928 for whom you intervened?

Mr. WHITE. That is right.

Senator JOHNSON. By the way: Were you a party to the intervention?

Mr. WHITE. Which intervention?

Senator JOHNSON. In 1928, when the first letter was written down to Colombia concerning the matter.

Mr. WHITE. I was out of the country. That was in January and February when the inquiry was made as to when an answer might be had to the memorial presented in 1926.

Senator JOHNSON. Who was in charge of the department then?

Mr. WHITE. Mr. Kellogg was Secretary of State.

Senator JOHNSON. In charge of this particular Latin American department, who was it?

Mr. WHITE. I think at that time it was Mr. Stokely Morgan.

Senator JOHNSON. Is he there now?

Mr. WHITE. No, sir; he is not.

Senator JOHNSON. Is there anybody in the department of Latin American affairs now that is familiar with what was done in the original intervention in 1928 by the Department of State?

Mr. WHITE. Only as shown by the documents.

Senator JOHNSON. We have not access to the documents, so I am trying to get it from you by question and answer.

Mr. WHITE. I frankly do not know. It was the firm of Sullivan & Cromwell.

Senator JOHNSON. You do not know?

Mr. WHITE. I do not know what individual it was that actually brought it to the department.

Senator JOHNSON. You have never made any inquiry, so far as you are concerned, as to who constituted the Carib syndicate?

Mr. WHITE. Except that it was an American company.

Senator JOHNSON. It was an American company; but who they were, what they were, or where they were or anything concerning them, you do not know and you did not inquire?

Mr. WHITE. Quite so.

Senator JOHNSON. In 1928, after the Gulf Co. had acquired this Barco concession, that was the first time that the American Government took hold of the proposition at all?

Mr. WHITE. It was the first time it had been brought to the department. The department does not take up any case until it is brought to it, naturally.

Senator JOHNSON. We will say it was the first time it was brought to the department. But were you not familiar with the fact that there was constant difficulty concerning the Barco concession in Colombia?

Mr. WHITE. Certainly, because the contract had been canceled in 1926.

Senator JOHNSON. Certainly. The contract had been canceled in 1926. Do you recall the State Department writing down to Bogota in reference to this matter prior to 1928?

Mr. WHITE. No, sir; I do not.

Senator JOHNSON. How was the concession canceled in 1926?

Mr. WHITE. By an executive decree.

Senator JOHNSON. Do you know whether or not it was done after a letter had been written by the State Department?

Mr. WHITE. I do not.

Senator JOHNSON. Do you remember that Mr. Kellogg said, when he observed the letter that had been sent down there, that it was a very foolish thing to do and he wished it had not been done?

Mr. WHITE. I do not.

Senator JOHNSON. Do you recall any such conversation at all with Mr. Kellogg?

Mr. WHITE. I do not.

Senator JOHNSON. Do you know the opinion that he expressed concerning the intervention of the United States in the Barco concession down in Colombia?

Mr. WHITE. I do not.

Senator JOHNSON. With what minister at Colombia were your first negotiations placed in relation to the Barco syndicate?

Mr. WHITE. Who was the American minister in Bogota?

Senator JOHNSON. Yes.

Mr. WHITE. Mr. Piles.

Senator JOHNSON. When did he cease to be the minister there?

Mr. WHITE. I do not know the date, but it was sometime in 1929, as I recall it.

Senator JOHNSON. So that the first communications were with Mr. Piles as the United States minister at Bogota?

Mr. WHITE. That is true.

Senator JOHNSON. Do you know how many communications passed between him and the State Department, or between the State Department and him, in regard to the matter?

Mr. WHITE. No, sir; I do not.

Senator JOHNSON. I am taking the matter, now, chronologically. Then Mr. Olaya was elected and came to the United States. You recall that, do you not?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Then Mr. Caffery, who was the successor of Mr. Piles, was detailed to be the attaché to accompany Mr. Olaya around the United States?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Then Mr. Caffery sat in on the making of the loan with the National City Bank?

Mr. WHITE. Yes, sir.

Senator JOHNSON. Then subsequently there was a dinner that was held here, and Mr. Mellon and Mr. Olaya, the President elect, sat side by side. Do you recall that?

Mr. WHITE. I do not. I can not say that from memory.

Senator JOHNSON. Did you attend that dinner?

Mr. WHITE. That I can not remember either. I undoubtedly did.

Senator JOHNSON. You observed from President Olaya's statement that he and Mr. Mellon did attend the dinner and they talked concerning affairs in Colombia?

Mr. WHITE. I know that he is reported to have said that.

Senator JOHNSON. You have no reason to believe it was not so, have you?

Mr. WHITE. I can not say whether it was true or not. I have no way of knowing.

Senator JOHNSON. Then came in 1931, in the months that you have indicated and during the periods that you have already testified about the various telegrams from Olaya, and in some of those he expressed the fact that he had legislated in behalf of Americans and the Barco concession and he thought that the Americans were not treating him right in reference to his credits?

Mr. WHITE. That is true.

Senator JOHNSON. A contest was waged, as you know, for a period of a couple of months in the Colombian Congress in 1931 over the Barco concession?

Mr. WHITE. That is correct.

Senator JOHNSON. And finally, on the 18th day of June, 1931, the Barco concession was adopted by the Congress?

Mr. WHITE. That is true.

Senator JOHNSON. And on the 20th of June the Barco concession was signed; the new Barco concession was signed by the President?

Mr. WHITE. That is correct.

Senator JOHNSON. Already by presidential decree the Barco concession had been rescinded and canceled, and the matter had been pending during that period of time that the events transpired that have been indicated, and on June 20 the President affixed his signature to the decree?

Mr. WHITE. That is correct.

Senator JOHNSON. On the 30th day of June there came the solution of the National City Bank's loan through an additional \$4,000,000 being given to Colombia?

Mr. WHITE. The agreement for the payment of this loan was concluded on October 25, 1930.

Senator JOHNSON. Oh, yes; but the loan had not been made.

Mr. WHITE. The loan had not been paid over.

Senator JOHNSON. And there had been differences existing during 1931 in reference to the payment, and finally they were composed and ended June 30, 1931, by the payment of the \$4,000,000. That is correct, is it not?

Mr. WHITE. That is correct.

Senator JOHNSON. It is perfectly obvious to you, is it not, that President Olaya had in mind the Barco concession frequently when he was wiring or when he was reporting to the American minister?

Mr. WHITE. I think, sir, from the statement from the Official Gazette which you read, the message to Congress, it is clear that he had in mind benefiting and improving the economic condition of the country in order that his credit position for the future should be bettered.

Senator JOHNSON. Exactly.

Mr. WHITE. The loan agreement of 1930 had already been concluded, and therefore did not enter into the matter.

Senator JOHNSON. Oh, wait, now. The credit agreement had been concluded in October, 1930, but in May and in June, 1931, it was not being carried out. That is true, is it not?

Mr. WHITE. Because there was a disagreement between the two parties as to the execution of the stipulations prior to the payment of the money.

Senator JOHNSON. Yes; I will grant that. But in the mind of Olaya it was the Barco concession, because he kept putting it into his telegrams up here, did he not?

Mr. WHITE. I think if you will read again that message of his to the Congress you will find that he mentioned the work to be done in the future at Buenaventura and other places, and he had in mind credit for the future, not this credit which had already been agreed to months before.

Senator JOHNSON. But he says in so many words that he has got to settle the Barco concession in order that he might have economic stability and get his foreign loans.

Mr. WHITE. In other words, his position was that he wanted to clear up the financial situation and pending suits and difficulties of the country by wiping out misunderstandings and disagreements that existed, which would put his country on a sound basis.

Senator JOHNSON. Exactly. And after he did that, 10 days afterwards, he got this \$4,000,000 from the National City Bank.

Mr. WHITE. He did, but that is a coincidence. There was no connection whatsoever between the two transactions.

Senator JOHNSON. Let us grant that it was a mere coincidence and that there is no connection between the two transactions. Grant that for the sake of the argument, for the moment—although I do not by any means concede that. The fact of the matter is that Olaya thought it was necessary, in order that he could obtain loans, that he settle the Barco concession?

Mr. WHITE. Future loans.

Senator JOHNSON. All right.

Mr. WHITE. Not the one under consideration.

Senator JOHNSON. But there was one loan being held up just then.

Mr. WHITE. But the agreement had been made for it.

Senator JOHNSON. What difference does that make?

Mr. WHITE. Senator, it is simply this, that the bankers were pledged already. The settling of the Barco matter improved Columbia's credit standing for the future. It did not apply to Columbia's credit position, vis-à-vis, the loan in which there was disagreement as to the carrying out of the contract, because that had been agreed to months before; and when President Olaya carried out the stipulations of it the bankers were obliged to pay over the money.

Senator JOHNSON. But they had not paid it and had refused to pay it.

Mr. WHITE. Exactly; and that was—

Senator JOHNSON. All right. They had refused to pay it, but they did pay it immediately, substantially, upon the Barco concession being settled. Call it a coincidence if you want to; it is immaterial to me. We can argue any phase of it that we desire; but the fact is that the bankers held up the credit that they were obligated to give. I grant you it was their duty to give it, but they would not give it.

Mr. WHITE. That is true.

Senator JOHNSON. And they did not give it until the Barco concession was settled. That is true, is it not?

Mr. WHITE. That is true.

Senator JOHNSON. That is all.

Mr. White, may I ask you to have Mr. Caffery here to-morrow morning? I would like Mr. Caffery and Mr. Matthews here to-morrow morning.

Mr. WHITE. I will endeavor to get in touch with them, sir.

Senator JOHNSON. Thank you.

The CHAIRMAN. We will hold a meeting of the full committee at 10 o'clock in the morning, and then if you will be here at 10.30 we will go on.

Senator JOHNSON. Thank you, sir.

(Whereupon, at 3 o'clock p. m., the hearing was adjourned until January 27, 1932, at 10.30 o'clock a. m.)