



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
LA 837.516/295

August 8, 1935

My dear Mr. Eccles:

With reference to my letter of August 2, 1935,
enclosing a copy of a "Project to Establish a Cuban
Monetary System and to Stabilize Cuban Currency", I
attach hereto a copy of a revised draft of this
project as made by Mr. Schwulst.

Sincerely yours,

For the Secretary of State:

Wm. Phillips
Assistant Secretary.

Enclosure:
Revised draft of
project, as stated.

Mr. Marriner S. Eccles,
Governor, Federal Reserve Board,
Washington, D. C.

Enclosure to Despatch No. 3743 of August 2, 1935,
from the Embassy at Habana

A PROJECT TO ESTABLISH A CUBAN MONETARY SYSTEM AND TO
STABILIZE CUBAN CURRENCY 10

ARTICLE 1. Unit of Monetary Value: On and after the effective date of this Act, the unit of monetary value shall be the peso which shall be issued by the National Government of the Republic through the Currency Commission hereinafter provided for. The peso shall be issued hereafter in the form of currency notes and subsidiary and minor coins which shall be the full and unrestricted obligations of the National Government and such notes shall be issued in the denominations hereinafter provided for. The peso shall be equal in value to one dollar in any currency which is legal tender for public and private debts in the United States of America.

ARTICLE 2. Legal Tender: The currency note, the silver peso and the silver certificate shall be legal tender for all debts public and private within the Republic. The silver peso and the silver certificate shall be retired as rapidly as possible from circulation by being exchanged, peso for peso, for currency notes. When so ordered by the Currency Commission, but not before, any part or all of such silver pesos and silver certificates, shall, upon receipt by the National Treasury, be exchanged for currency notes and retired from circulation. All Government officials and all banks operating in the Republic are hereby directed, when so ordered by the Currency Commission, to turn into the National Treasury for exchange into currency notes, peso for peso, any part or all of such silver pesos and silver certificates which they may hold or receive in the course of business.

All gold and all United States currency and United States coins in the National, Provincial and Municipal treasuries shall, within thirty days after the effective date of this Act, be turned

into the Currency Commission and exchanged, dollar for peso, for currency notes. The gold so acquired shall be valued in the exchange for currency notes in accordance with Decreto Ley 410 of August 10, 1934. The Currency Commission shall immediately add all such gold, United States currency and United States coins to the reserves provided for under Article 5 of this Act.

Cuban subsidiary coins of forty centavos shall be legal tender in amounts not exceeding twenty pesos. Cuban subsidiary coins of twenty centavos and ten centavos shall be legal tender in amounts not exceeding ten pesos. Cuban minor coins of nickel shall be legal tender in amounts not exceeding two pesos.

On and after the effective date of this Act, no currency or coin other than that made legal tender by the provisions of this Article shall be legal tender within the Republic, provided, however, that contracts specifically calling for payment in United States currency or other foreign currency shall not be affected by this Act, although the settlement of such contracts in such currencies shall not give to such currencies the quality of legal tender with respect to any other contracts or transactions, nor shall it give to such currencies the privilege of circulating as money within the Republic.

On and after the effective date of this Act no money or currency, other than that made legal tender by the provisions of this Act, shall be received in settlement of customs duties or any other dues, taxes and payments due to the National, Provincial or Municipal Governments, provided, however, that the Currency Commission may, in its discretion, authorize the acceptance of United States currency in all such settlements for a period of not to exceed three years after the effective date of this Act and provided, further, that all such United States currency shall prompt-

ly be turned into the Currency Commission and exchanged for currency notes and such United States currency shall promptly be added to the currency reserves as provided in Article 5 of this Act.

ARTICLE 3. The Currency Commission: There is hereby created the Cuban Currency Commission which shall consist of three members. There shall also be chosen one alternate for each member who shall serve on the Commission in the absence of that member. The members of the Commission and the alternates shall be the following:

- a). The Secretary of Finance who shall act as Chairman of the Commission. The Secretary of Finance shall choose his alternate from among the high officials of his department and his alternate shall serve in his place on the Commission and act as Chairman thereof in his absence. The Secretary of Finance and his alternate shall receive no compensation for such service.
- b). The representative in the Republic of the banking institution in the United States of America, which is the principal custodian of the currency reserves deposited in the United States of America, in accordance with the provisions of this Act. This representative shall choose his alternate from among the members of his staff. The compensation for such representative and his alternate for services on the Commission shall be such as may be agreed upon between such institution and the President of the Republic.

In the event such institution does not consent to have its representative serve on the Commission, the President of the Republic shall appoint the member and his alternate from a list of six names submitted by the Cuban Chamber of Commerce. The compensation of such member and his alternate shall be fixed by the President of the Republic, but shall not exceed \$5,000 per annum for the member and \$2,400 per annum for the alternate.

- c). A member and his alternate appointed by the President of the Republic from a list of six names submitted by the Havana Clearing House Association.

The compensation of the member and his alternate shall be fixed by the President but shall not exceed \$5000 per annum for the member and \$2,400 per annum for the alternate.

Any member of the Commission and any alternate may be removed at any time by the President of the Republic for cause.

The members of the Commission are hereby authorized to incur such clerical and other expenses as may be indispensable for carrying on the operations of the Commission and giving effect to the provisions of this Act. The salaries of the members of the Commission and such expenses as may be incurred shall be paid by the National Treasury which shall be reimbursed out of any profits realized from the operations conducted through the "Exchange Standard Fund".

To defray the organization expenses of the Commission, there is hereby appropriated out of any unappropriated funds in the National Treasury the sum of \$25,000. This sum may be drawn upon in such manner as may be determined by the Commission. But all expenditures from this appropriation shall be reimbursed to the Treasury out of any profits resulting from operations through the "Exchange Standard Fund".

The members of the Commission and their alternates shall be bonded for such an amount and in such manner as the President of the Republic shall deem necessary. The Commission shall determine which of its employees shall be bonded and shall fix the amounts of their bonds.

ARTICLE 4. Powers and Duties of the Commission: For the purpose of maintaining the parity of the peso with the legal tender currency of the United States of America, and of keeping the currency equal in volume only to the demands of trade, the Commission is hereby authorized and directed:

- a). On demand, at the office of the Commission in Havana, to sell for currency notes offered in sums of not less than five thousand pesos, or currency issued by and/or under the authority of the United States of America, offered in sums of not less than five thousand dollars, exchange for equivalent amounts on the "Exchange Standard Fund" deposited in the United States of America, charging for the same such a premium as may from time to time be determined by the Commission, provided, however, that such premium shall not exceed the cost of physically transporting the equivalent in United States currency to the Custodian Bank in the United States of America, plus insurance

and loss of interest during the period of transportation; and the Commission is further authorized and directed to instruct any depositories of the currency reserve funds in the United States of America to sell for United States currency on demand exchange in sums of not less than five thousand pesos against the "Exchange Standard Fund" in the Republic of Cuba, charging for the same such a premium as may from time to time be determined by the Commission (rendering accounts therefor to the Commission), provided, however, that such premium shall not exceed the cost of physically transporting the equivalent in Cuban currency from the Custodian Bank in the United States of America to Havana, plus insurance and loss of interest during the period of transportation. All such dealings in exchange shall constitute operations through the "Exchange Standard Fund" hereinafter provided for.

- b). To exchange at par currency issued by and/or under the authority of the United States of America for currency notes, and to exchange at par currency notes for currency issued by and/or under the authority of the United States of America.
- c). To withdraw from circulation currency notes received by the Commission in Havana in the manner provided in paragraphs (a) and (b) of this Article, until said currency notes are paid out in response to the demands upon it by the sale of exchange in the United States of America as provided in paragraph (a) of this Article or until said currency notes are needed for the purpose of effecting exchanges of said currency notes for currency issued by and/or under the authority of the United States of America as provided by paragraph (b) of this Article.
- d). To withdraw from circulation currency issued by and/or under the authority of the United States of America received in the Republic of Cuba by the Commission in exchange for currency notes or for exchange sold on the "Exchange Standard Fund" in the United States of America under paragraphs (a) and (b) of this Article. Currency issued by and/or under the authority of the United States of America so obtained shall become part of the "Exchange Standard Fund" and shall be added to the currency reserves as provided in Article 5 of this Act.

ARTICLE 5. The "Exchange Standard Fund"; How Constituted: There is

hereby established in the National Treasury a separate and trust fund to be designated as the "Exchange Standard Fund", which shall at all times include United States currency, and/or United States dollar deposits, in sums not less than the percentages hereinbelow stipulated of currency notes and/or subsidiary and minor coins in circulation and available for circulation. The stock of unissued or redeemed currency notes and/or subsidiary and minor coins shall not be considered as money in circulation or available

for circulation, and such unissued and redeemed currency notes and/or subsidiary and minor coins shall be physically held by the Commission until such time as they may be paid out and become circulating currency notes and/or subsidiary and minor coins under the provisions of this Act.

The percentages of circulating currency notes and/or subsidiary and minor coins to be maintained at all times in United States currency or United States dollar deposits shall never be less than the following:

<u>Amount of Currency Notes and/or Subsidiary and Minor Coins in Circulation or Available for Circulation.</u>	<u>Minimum Reserve to be Main- tained in United States Currency and/or United States Dollar Deposits.</u>
\$ 0 to and including \$25,000,000.	15 %
From \$25,000,001 to and including \$50,000,000	30 %
From \$50,000,001 to and including \$75,000,000	45 %

For every peso increase in circulation above \$75,000,000, there shall be one dollar of reserve represented by United States currency or United States dollar deposits.

If at any time and for any reason said United States currency and dollar deposits shall fall below the minimum percentages hereinabove established, the deficiency shall be made up by the National Treasury out of any funds then in or available to the National Treasury or thereafter paid into or made available to the National Treasury, provided only that such funds are not specifically appropriated to meet the payment of the principal, sinking fund or interest of the public debt, and such an amount as may be necessary to make up any such deficiency shall be considered as automatically appropriated for this purpose, and the Secretary of Finance and any

and all other Government officials concerned are hereby authorized and directed to transfer the necessary amount to the "Exchange Standard Fund" in United States currency or United States dollar deposits to make good such deficiency therein.

In determining the above percentages, the proceeds of outstanding certificates of indebtedness (hereinafter provided for) shall be deducted from the amount of such United States currency and United States dollar deposits.

To the "Exchange Standard Fund" there shall be added from time to time the following:

- a). All profits of seignorage made in the purchase of bullion and the coinage therefrom of coins; and all profits from the issue of subsidiary and minor coins; and all profits which may be derived from the recoinage from time to time of coins circulating in the Republic.
- b). All profits from the sale of exchange by the Commission between the Republic and the United States of America for the purpose of maintaining the parity of the peso.
- c). All premiums arising from the sale of telegraphic transfers and demand drafts by the Commission in Havana upon Provincial Treasurers as hereinafter provided.
- d). All interest or other profits from deposits made from the "Exchange Standard Fund" in accordance with this Act.
- e). All other receipts derived by the Commission from the exercise of the functions of furnishing a currency to the Republic.

ARTICLE 6. Expenses to be Defrayed from the "Exchange Standard Fund";

The "Exchange Standard Fund" shall not be used to pay any of the expenses of the National, Provincial or Municipal Governments or any Governmental agency in the Republic or to satisfy any of the appropriations of said Governments or agencies except only such expenses as follow:

- a). Those connected with the purchase of bullion or metal

to be used for coinage and the coinage of the same into money of the Republic and such expenses as may be incidental to such coinage.

- b). Those connected with the putting of money into circulation including the preparation, issue and destruction of currency notes or other Cuban currency.
- c). Those connected with the carrying on of such transactions, by exchange or otherwise, as may be authorized by law to maintain the circulation of the currency of the Republic, to maintain the parity of the peso with the legal tender currency of the United States of America, and to maintain the parity of value between the peso and subsidiary and minor coins.
- d). Those connected with the general expenses of the Commission.

ARTICLE 7. How the "Exchange Standard Fund" is to be held: The "Exchange Standard Fund" shall be held in especially designated vaults of the National Treasury in Havana and such Fund may be held, in whole or in part, in the form of deposits payable in United States currency with any Federal Reserve Bank in the United States of America or with such member banks of such Federal Reserve Banks in the United States of America as may be designated from time to time by the Commission, provided, however, that no portion of the Fund shall ever be deposited in any bank incorporated under the laws of the Republic of Cuba, or the principal business of which is done in the Republic of Cuba, and provided that not more than twenty percent of the Fund shall be deposited with any single depository except the depository in which the Commission keeps its deposits in current account in connection with its exchange operations. Such deposits in current account shall not be considered in determining the twenty percent limitation.

Such portion of the Fund as is held in the National Treasury in Havana shall be physically segregated in especially designated vaults of the National Treasury and shall be kept separate and detached in every respect from all other funds of the National Treasury, and shall be under the joint and exclusive custody of the three members of the Commission. No funds may be withdrawn from the "Exchange Standard Fund" in the National Treasury except upon

written order signed by at least two members of the Commission.

No checks or other orders for payment upon the deposits of the "Exchange Standard Fund" in the depositories in the United States of America shall be valid unless signed by two members of the Commission.

The Commission shall establish such a system of accounting as will enable the members of the Commission to know at all times the condition of the "Exchange Standard Fund", and the Commission shall establish an adequate continuous control of the accounts and operations of the Fund through the installation of a modern auditing system or otherwise, so as to enable the Commission to discharge its responsibilities under the provisions of this Act.

ARTICLE 8. Sufficiency of the "Exchange Standard Fund": If at any time and for any reason it should become apparent that the amount of the "Exchange Standard Fund" is not sufficient to maintain the parity of the peso, the President of the Republic may, and he is hereby authorized to, issue and sell certificates of indebtedness in an amount which, when the proceeds of the sale are added to the Fund, will be adequate to maintain the parity of the peso. Such certificates of indebtedness shall be the full and unrestricted obligations of the Republic of Cuba, exempt both as to principal and interest from all taxes now or hereinafter imposed by the National, Provincial and Municipal Governments. As the public interest permits, and always provided that the Fund may not be reduced below the amounts stipulated in Article 5 of this Act, the Commission may, upon the request of the President of the Republic, direct the payment from the Fund of principal and/or interest of all or any part of the certificates of indebtedness at any time outstanding.

ARTICLE 9. Surplus Accumulations in the Fund: The "Exchange Standard Fund" shall be increased through the additions provided for in

Articles 5, 14, and 17 of this Act until the amount of the Fund represented by United States currency and United States dollar deposits is equal to forty-five percent of all currency notes and/or subsidiary and minor coins in circulation and available for circulation up to and including \$37,000,000, and fifty-five percent of all currency notes and/or subsidiary and minor coins in circulation and available for circulation when the aggregate of such currency notes and/or subsidiary and minor coins in circulation and available for circulation amounts to more than \$37,000,000 but not more than \$75,000,000. Such United States currency and United States dollar deposits shall be increased by one dollar for each increase of one peso in currency notes and/or subsidiary and minor coins in circulation and available for circulation in excess of \$75,000,000. Any surplus which may exist or may accumulate in the Fund in excess of the amounts stipulated in this Article, may be transferred in whole or in part to the general fund of the National Treasury upon the recommendation of the Currency Commission and the approval of the President of the Republic, provided, however, that no such existing or accumulated surplus may be so transferred while the aggregate amount of currency notes and/or subsidiary and minor coins in circulation or available for circulation is less than \$17,000,000. When the aggregate amount of currency notes and/or subsidiary and minor coins in circulation or available for circulation is \$17,000,000 or more, any surplus existing in such "Exchange Standard Fund" may be transferred, in whole or in part, to the general funds of the Treasury in accordance with the following stipulations:

- a). If the aggregate amount of such currency notes and/or subsidiary and minor coins in circulation or available for circulation is \$17,000,000 or more, but not more than \$37,000,000, then an amount not to exceed \$2,500,000 may be transferred from any such surplus.
- b). If the aggregate amount of such currency notes and/or subsidiary and minor coins in circulation or available for circulation is \$37,000,001 or more, but not more than \$57,000,000, then an additional \$2,500,000 may be so transferred from any such surplus.

- c). If the aggregate amount of such currency notes and/or subsidiary and minor coins in circulation or available for circulation is \$57,000,001 or more, but not more than \$75,000,000, then such an additional amount may be transferred as will leave the aggregate amount of such United States currency and United States dollar deposits not less than fifty-five percent of the aggregate of such currency notes and/or subsidiary and minor coins in circulation and available for circulation.

In calculating the foregoing amounts and percentages, the proceeds of the sale of outstanding certificates of indebtedness shall not be included as a part of the Fund, and no surplus shall be so transferred while any certificates of indebtedness are outstanding.

ARTICLE 10. Accounts and Records of the "Exchange Standard Fund": Such accounts and records of the "Exchange Standard Fund" shall be kept as will show at all times, among other things, the following:

- a). Unissued Currency Notes. These notes shall include new notes which have never been issued and notes which have been issued but which have been redeemed. Such notes shall not be considered a part of the money in circulation or available for circulation until such time as they may be paid out in connection with the transactions contemplated in Article 4 paragraphs (a) and (b), provided, however, that such notes may be used in making exchanges, pesos for peso, of notes fit for circulation for notes which, because of their soiled, worn or torn condition, are no longer fit for circulation. Such notes unfit for circulation shall be treated for accounting purposes exactly as though they were unissued or redeemed notes, until such time as they are destroyed in accordance with rules and regulations to be approved by the Commission.
- b). Unissued Subsidiary and Minor Coins. These coins shall include new coins which have never been issued and also coins which have been issued but which have been redeemed. Such coins shall not be considered a part of the money in circulation or available for circulation until such time as they may be paid out in connection with the transactions contemplated in Article 4 paragraphs (a) and (b) provided, however, such coins may be used in making exchanges for currency notes and other coins where such exchanges are required for the convenience of trade and commerce. The notes and coins received as a result of such exchanges shall be treated as unissued or redeemed notes and coins.
- c). Lawful Money of the United States on Hand. All such money shall be accounted for in a special account in the "Exchange Standard Fund" and shall be included as a part of the reserves provided for in Article 5 of this Act.

- d). United States Dollar Deposits in Federal Reserve Banks in the United States of America and/or Member Banks of Federal Reserve Banks in the United States of America. All such deposits shall be accounted for in a special account in the "Exchange Standard Fund" and shall be included as a part of the reserves provided for in Article 5 of this Act. 10
- e). Other Funds on Hand.
- f). Bullion on Hand for Coinage Purposes.
- g). Profits and Losses from the Operations of the "Exchange Standard Fund".
- h). Such other Accounts and Records as may be Necessary to Show Fully and in Detail the Assets, Liabilities and Operations of the Fund.

ARTICLE 11. Denominations of and Regulations Regarding Currency Notes:

The Commission shall cause adequate supplies of currency notes to be engraved and printed by houses or establishments expert in doing such work. The Commission is hereby authorized to cause to be engraved and printed currency notes in any or all of the following denominations: one peso, five pesos, ten pesos, twenty pesos, fifty pesos, one hundred pesos, five hundred pesos, one thousand pesos and five thousand pesos. All dies and plates shall be safeguarded and kept with the same degree of control and caution as unissued currency notes.

The Commission shall issue such regulations as it may consider necessary with respect to the manner of engraving, printing, handling and accounting for currency notes. The currency notes shall contain a legend to the effect that they are the full and unrestricted obligations of the Republic of Cuba, that upon demand they will be redeemed in accordance with the provisions of Article 4 of this Act, and that the holders of such notes have a first and paramount lien upon all the assets in the "Exchange Standard Fund".

ARTICLE 12. Subsidiary and Minor Coinage: The subsidiary and minor coins in the Republic shall be those now provided for by law. On and after the effective date of this Act the coinage, issuance and redemption of Cuban subsidiary and minor coins shall be under the direction and control of the Currency Commission.

It shall be the duty of the Currency Commission to provide an adequate supply of subsidiary and minor coins to meet the needs of trade and commerce. On demand, the Currency Commission shall exchange currency notes for subsidiary and minor coins when such coins are presented in amounts of one hundred pesos or multiples thereof.

ARTICLE 13. The Reports of the Commission: The Commission shall issue weekly statements available for publication in the public press, showing the condition of the "Exchange Standard Fund", and showing particularly the amount of reserves in United States currency and United States dollar deposits in comparison with the total amount of currency notes and/or subsidiary and minor coins in circulation and available for circulation.

As of June 30th and December 31st of each year, the Commission shall prepare and make available for publication a report to the President of the Republic in which it shall set forth in detail the condition of the "Exchange Standard Fund", the operations which have taken place through the Fund during the preceding six months and the income, expenses, profits, and losses of the Fund during that period.

ARTICLE 14. Disposition of Silver pesos Received in the "Exchange Standard Fund": All silver certificates received in the "Exchange Standard Fund" shall be promptly exchanged for silver pesos. All silver pesos in the Fund or received in the Fund shall, in amounts of \$100.000, or multiples thereof, be melted down by the Commission and the bullion sold in the open market. The proceeds of such sale shall be deposited with the depositories of the "Exchange Standard Fund" in the United States of America and shall constitute a part of the reserves provided for in Article 5 of this Act.

ARTICLE 15. Sale of Telegraphic Transfers and Demand Drafts: The Commission is authorized to sell telegraphic transfers and demand drafts upon Provincial Treasurers, charging such commission therefor as the Commission may determine.

Provincial Treasurers are hereby authorized and directed to act as agents of the Commission under such terms and conditions as the Commission may determine.

ARTICLE 16. Reserves of Banks Operating within the Republic: All banks operating within the Republic and receiving deposits within the Republic shall, beginning with the effective date of this Act, maintain with respect to all deposits made within or payable within the Republic a reserve in Cuban currency or coins by this Act made legal tender equal to not less than twenty percent of all such deposits payable upon demand or within thirty days and seven percent of all such deposits in savings account and such deposits payable after thirty days. This reserve shall be maintained in Cuban currency or coins by this Act made legal tender irrespective of the currency in which the deposits were made or are payable. In calculating such reserve there shall be deducted from balances due to other banks balances due from other banks in an amount up to, but not exceeding, such balances due to other banks, and there shall not be included in such deposits balances due to head offices and branches located outside the Republic of Cuba. Not more than ten percent of the reserve may consist of subsidiary and minor coins, and not less than two-thirds of such reserve shall at all time consist of currency notes.

The provisions of this Article shall apply to the Bank of Cuba, except insofar as they may be in conflict with the provisions of the Act creating such bank, in which case the provisions of the latter Act shall prevail.

ARTICLE 17. Penalty Provision: Any person guilty of counterfeiting or participating in the counterfeiting of currency notes, silver certificates or coins or circulating or aiding in any manner the circulation of such counterfeit currency notes silver certificates or coins shall be punished by a fine of not to exceed \$10,000 or by imprisonment for a term of not to exceed ten years or by both such fine and imprisonment in the discretion of the court.

Any person guilty of making or participating in the making of false entries in any record, book or account of the "Exchange Standard Fund", and any person guilty of theft or embezzlement or participating in the theft or embezzlement of any funds or assets in the "Exchange Standard Fund", shall be punished by a fine of not to exceed \$10,000 or by imprisonment for a term of not to exceed ten years or by both such fine and imprisonment in the discretion of the court.

Any person guilty of giving false information or participating in the giving of false information to the public with respect to the true condition and operations of the "Exchange Standard Fund" shall be punished by a fine of not to exceed \$5,000 or by imprisonment for a term of not to exceed five years or by both such fine and imprisonment in the discretion of the court.

Any bank which does not maintain the reserves against its deposit liabilities as required under the provisions of Article 16 of this Act, shall be fined five hundred pesos for each day that such reserves are deficient. The Commission is hereby authorized to obtain the necessary reports from such banks showing their reserve position at the close of business each day, and the Commission is hereby authorized and directed to impose and collect the fine provided herein for deficient reserves, and the proceeds of such fines shall be included as a part of the income of the "Exchange Standard Fund".

ARTICLE 18. Repeal Provision: All acts or parts of acts in conflict with the provisions of this Act are hereby declared to be of no force and effect insofar as the provisions of this Act are concerned.

ARTICLE 19. The Effective Date of this Act. This Act shall take effect on date.