

Office Correspondence

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Subject: _____

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I had planned to do some more work on the administration of various foreign central banks. However, this memorandum contains some general observations upon the centralization of control and the influence of Governments, with a brief review of the administrative set-up of some of the leading central banks.

Also I am attaching a paper prepared by Mr. Longstreet of the Division of Research and Statistics on a comparative review of central bank statutes.

*2/16/35**Feb 1935*

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(3/11/35 - mmw)
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ADMINISTRATION OF CENTRAL BANKS

It is difficult to determine by making a comparative survey of the administrative organizations of the various central banks, the exact exercise of policy-making functions. An examination of the bare provisions of the laws or charters is often deceptive because bodies which apparently are charged with great authority and responsibility may in practice never really use their power. A single individual of great personal force may dominate the business of a bank while the other officers and directors merely formally give their approval to his policies. The Government of a country often exerts more influence over central bank policy than would be expected from its direct connection with the bank as provided in the law.

Below are some observations upon the centralization of control and the influence of Governments which exist in the operation of the central banks of the world:

CENTRALIZATION OF CONTROL:

An outstanding feature in the administrative organization of the some forty odd central banks of the world is the high degree of centralization of authority and responsibility which exists. Decisions with regard to major questions of policy are made by a central authority which generally is composed of a relatively small number of men. The United States is practically the only country where there is clearly a diffusion of authority and responsibility in the administrative set up. This does not mean that policies of the Federal Reserve System will always be hesitant and indecisive, whereas those of other central banks will be positive and satisfactory, but it does indicate that the reserve system, in formulating and executing policy, labors under an additional difficulty imposed by its cumbersome administrative machinery. This is, of course, typical of American governmental organization.

While the ultimate control of the majority of the central banks nominally resides in the private owners of their shares, for all practical purposes control is generally vested in the management. It is true that the boards responsible under the laws or charters for policy may have as many as twenty-five or more members, but in most cases where sizeable boards exist, they are not in continuous session. Under these circumstances, authority for the control of the affairs of the bank is largely delegated by law or practice to the Governor, or to an executive committee headed by the Governor. The power thus delegated often includes the determination of the most important questions of policy, subject only to the requirement that any action taken must be submitted to the full board at its next meeting where approval is likely to be perfunctory or casual.

Almost universally the Governor (or President) of the central bank has broad powers under the law. The extreme case being Canada where the Governor may veto any action of the board or executive committee, which merely recognizes in law a power which exists in fact in many other central banks. In actual practice, the influence of the Governors in the determination of the policies of their banks is much greater than even the laws themselves indicate. A Governor, because of his position as executive head of the bank, has a background of experience which, depending upon the personal force of the incumbent, obviously lends great weight to his opinions with other directors who do not have his immediate contact with the problems which come before the board.

INFLUENCE OF GOVERNMENTS:

It may be categorically stated that some relationship exists between the management of the central bank and the Government in every country, either as a matter of policy and precedent, or as a matter of law. In times of war or severe economic disturbance, policies of the Government assume supreme importance and inevitably the central bank under these circumstances must work closely with the Government. Regardless of how completely divorced from Government influence a central bank may be on the surface, it is almost inconceivable that an open break could exist on vital matters of policy over a long period of time.

In many cases the relationship is extremely close and officials of the Government are consulted on every important change of policy. Moreover, amendments to the central banking laws in many countries within the past few years have had the tendency to give the Governments more direct control over the central banks.

As evidence of the close contact of Governments and central banks in practically every country, the Government either appoints or participates in the appointment of the Governor (or President) of the central bank. In view of the positions of dominating importance enjoyed by the Governors, this fact is extremely significant.

REVIEW OF THE ADMINISTRATIVE ORGANIZATION OF THE MAJOR CENTRAL
BANKS

BANK OF ENGLAND

Complete control of the bank is nominally vested in the stockholders and is exercised through their elected directors. Stockholders' meetings are held semi-annually with holders of shares of not less than £500 having one vote and no more on questions before the meeting. The Governor, Deputy-Governor, and 24 directors are elected annually for a one-year term. No information about requirements for meetings of the full board.

Under the charter a Court of Directors is provided for managing the affairs of the corporation. This Court shall consist of at least 13 directors including the Governor and Deputy-Governor. A Court of Directors is held at least once a week as required in the original by-laws. Thus, in practice, the control of the bank is in the hands of a fairly small group of men with the meetings of stockholders mere formality to adopt the recommendations of the Directors.

While the bank is a private institution there is close co-operation with the Government and traditionally considerations of public rather than private interest dominate the actions of the bank.

BANK OF FRANCE

The management of the bank is mainly in the hands of the Governor and two Deputy-Governors, who are appointed by the President of France, on the proposal of the Finance Minister. The Governor directs all the bank's business and the importance of his position is emphasized by the law. For example, he must give his formal approval to all discount operations of the bank. He is not appointed for any definite term and can evidently be replaced at any time.

A General Council, consisting of the Governor and Deputy-Governors, together with fifteen Regents and three Auditors, who are elected at the shareholders' meeting by the two hundred French citizens holding the largest number of shares, each having one vote at the election. The term of the Regents is five years, while that of the Auditors is three years. The General Council is required to meet once every week. While the Council is legally

responsible for the general administration of the bank, in view of the Governor's dominant importance, it is simply a perfunctory body with no real power.

THE GERMAN REICHSBANK

The bank is managed by a board of unspecified number which is required to meet at least once a week. The President of the board is the President of the bank and is appointed for a four-year term by the President of the Reich. Other members of the board are nominated by the President of the bank and appointed by the President of the Reich for terms of twelve years. On important grounds, any member of the board, including the President, can be dismissed at any time by the President of the Reich. This form of control was introduced by recent amendments to the law and undoubtedly the present Government will maintain close control over the operations of the bank.

The shareholders select a committee which may be consulted by the board, but this is merely an advisory body with no real power of control.

BANK OF CANADA

The board of directors is composed of the Governor, Deputy-Governor, the Deputy Minister of Finance (or his representative) who shall have no vote, and seven directors elected by shareholders for terms of five years. The directors appoint for terms of seven years, the Governor and Deputy-Governor, with the consent of the Governor-General in Council. The first Governor, however, was appointed direct by the Governor-General. The law requires no regular meetings of the board but the by-laws require at least four meetings a year or as the Governor may call them.

An executive committee is set up which is composed of the Governor, Deputy-Governor, the Deputy Minister of Finance (or his representative), and one of the directors selected by the board. This committee shall deal with any matters within the competence of the board but its decisions shall be submitted for approval to the board at its next meeting. This committee is required in the by-laws to meet once a week or oftener upon call by the Governor. The Governor holds the most important position in the bank. He has veto power over all of the actions of the board of directors and the executive committee. Thus the Canadian Act recognizes de jure the responsibility of the Governor for the actions of the bank which is the de facto situation in many central banks.

BANK OF JAPAN

The management of the bank resides in an Administrative Board which consists of a Governor and Vice-Governor appointed for five-year terms by the Government and four directors appointed for four-year terms by the Finance Minister from a list of names nominated by shareholders. The shareholders may, with the approval of the Finance Minister, dismiss directors. No legal requirement as to meetings but apparently the Board meets regularly at frequent intervals. The law also establishes a Board of Auditors who, with the Directors, form the General Council.

Although all shares are privately owned, the law provides that the Government shall control all the operations of the bank and shall prevent any operation contrary to law or interest of the Government. The Governor of the bank may suspend, and refer to the Government, any decision of the Board or Council which he considers illegal or against the interest of the State.

BANK OF SWEDEN

The capital stock is wholly owned by the Government. The bank is managed by a board of seven directors, six elected by the legislature while the seventh is appointed by the King and designated as President of the Bank. Three of the directors including the President are elected managing directors by the board and form a kind of executive committee. There are no specific requirements in the law for stated meetings of the board or the managing directors.

NETHERLANDS BANK

The control of the bank is largely in the hands of a Board of Management, consisting of a President, a Secretary and not less than two directors. The President and the Secretary are appointed by the Crown for terms of seven years and may be suspended or dismissed by the Crown. The directors are appointed for five-year terms by voting shareholders from a nomination list prepared by the Board of Management and the Commissaries. The shareholders may also dismiss the directors on recommendation of the Board and Commissaries.

Fifteen Commissaries are elected by and from voting shareholders for five-year terms. The Commissaries are entrusted with the supervision of the management and the examination of the annual returns. They meet as may be necessary, and the President may call a combined meeting with the Board of Management at any time.

In addition, an advisory committee consisting of five persons

is elected by the shareholders from nominations submitted by the Board and Commissaries. This committee meets with the management at fixed periods and shall be consulted on important matters. If there is a difference of opinion the Board of Commissaries is to be informed.

THE NATIONAL BANK OF BELGIUM

Under the law the National Bank of Belgium has a rather complicated administrative set up. A Board of Directors, which consists of the Governor and three Directors, is in charge of the daily business of the bank. The Governor is appointed by the Crown for a term of five years and serves at the pleasure of the Crown, while the other directors are elected for five-year terms by the stockholders.

An Administrative Council, which is composed of the Governor, the Board of Directors and nine Regents elected by shareholders for terms of six years, has control over major policy decisions. This Council meets once a week. The Governor, however, may suspend the execution of the Council's decisions pending submission to an urgency meeting of the General Council.

A Board of Censors composed of ten members elected by shareholders supervises the bank's operations and examines the books. This board meets at least once a month.

The above three bodies form the General Council which meets at least every three months to consider the general situation.

A Commissioner, who may attend meetings of the above bodies, is appointed by the Government to supervise the bank's operations. The Government has the right to oppose any of the bank's measures considered contrary to the laws or interests of the State.

BANK OF ITALY

The administration of the Bank of Italy is by the Board of Directors, the Governor and the Executive Committee. The Board consists of two members elected annually by each of the Councils of Chief Officers of the bank from their own members, five members elected by the stockholders from remaining members of the Councils, and the Governor. The Board elects and dismisses the Governor, the General Manager and the Deputy General Manager who together form the Executive

Committee. The names of these officials must be approved by the Government.

The Governor is given wide powers over important matters of policy by the law which apparently are not subject to the approval of the Board. Of course, the present Government of Italy probably has a great deal more control over the policies of the bank than the laws indicate.

SWISS NATIONAL BANK

The supreme executive of the bank is the General Direction, composed of three members including the President and Vice President of the Bank. These are appointed for six-year terms by the Federal Council (corresponding to the Cabinet) from nominations submitted by the Council of the Bank. The General Direction has final decision over the important questions of policy after consulting with the Bank Committee and the directions of the principal branches.

General supervision is vested in a Council of forty members with four-year terms. The President, Vice President and twenty-three other members are chosen by the Federal Council while the remaining fifteen members are chosen by the stockholders. The Council meets regularly only every three months but in the interval delegates its functions to the Bank Committee which consists of the President and Vice President and five members nominated by the Council.

February 16, 1935.

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A COMPARATIVE REVIEW OF CENTRAL BANK STATUTES

*Longstreet (Feb 2)
(Emmit) 3/1/35 (mum)*

The organization and operation of some 40 central banks in existence vary from country to country in accordance with differences in laws, practices, and conditions. It is possible, nevertheless, to sketch briefly, without entering into too much detail, the outstanding characteristics of central banks and to point out the more important variations from the general type. The organization and operation of the banks will be considered chiefly in the light of the statutory provisions with respect to capital ownership, control and management, profits, note issue and reserve and collateral requirements, member bank reserves, and general business. It should be emphasized that this approach has definite limitations, for there is a danger in confining attention only to organic laws when so much depends upon their legal interpretation in each country and upon custom and actual experience.

Capital ownership - The majority of central banks, including those of the leading financial countries, are privately owned. The Federal Reserve Act and the central banking laws of Chile, Columbia, and of other countries drawn up in recent years under the guidance of American experts prescribe ownership of central bank stock by commercial banks, which thereby come under the supervision of the central bank and enjoy the privilege of rediscount. At the other extreme the new Bank of Canada Act makes it explicit that neither banks nor directors or employees of banks may own central bank shares. For the older European

central banks there is no limitation or requirement as to ownership of shares, a practice that has been recently adopted in New Zealand with the modification that shareholders must be British subjects ordinarily resident in the country. The following table groups the various countries according to the ownership of their central banks.

CAPITAL OWNERSHIP OF CENTRAL BANKS

<u>Private ownership</u>		<u>Government ownership</u>	
100 per cent	Over 50 per cent	Over 50 per cent	100 per cent
United States	Chile	Bolivia	Afghanistan
England	Columbia	Estonia	Australia
France	Czechoslovakia	Guatemala	China
Germany	Peru	Mexico	Finland
Austria	Poland		Latvia
Belgium	Turkey		Russia
Bulgaria			Sweden
Canada			Uruguay
Danzig			
Denmark			
Ecuador			
Greece			
Hungary			
Italy			
Japan			
Lithuania			
Netherlands			
New Zealand			
Norway			
Portugal			
Rumania			
Spain			
Switzerland			
Union of South Africa			
Yugoslavia			

Control and management - The control of central banks, so far as the provisions of the law are concerned, ranges from complete private autonomy in England to full Government control, as in Germany, Russia, and Sweden, with all shades of variation in between. In England the central bank is a privately owned corporation managed by its stockholders. Its relations with the Government, except in the issue department, are fundamentally those of banker and client. At the hearings of the Macmillan Committee in December 1929, Sir Ernest Harvey, Deputy Governor of the bank, testified: "We, on our part, never venture to interfere on any question that can be considered a political question unless we are asked to express an opinion as to what the financial effect of a certain political operation may be The Treasury, on the other hand, . . . do not seek to dictate an alternative line of financial policy if we consider a particular line of policy essential for the protection of the country's main reserves. . . . the color of the Government at the moment has absolutely no influence whatever on the nature of these relations."

While the Bank of England as a matter of law is entirely independent of the Government, it is always in close touch with it. The extent of the bank's leadership in the formulation of financial policies depends in large part on personalities and tradition and on the prestige of the bank. The bank and the Treasury cooperate

closely in administering the Exchange Equalization Fund, the purpose of which is to prevent extreme fluctuations in the external value of the pound.

The issue department of the Bank of England is regulated by statute much more closely than the banking department. The bank issues notes only against a fixed amount of securities (£260,000,000), called the fiduciary issue, and against gold. The profits of the issue department go to the Government and the bank cannot alter its fiduciary issue except by authority of the Treasury.

The Bank of France is also a private institution in the sense that its capital is supplied by the public. Unlike the Bank of England, however, powers of the shareholders are strictly limited by law and the Government has a major part in the bank's management. The shareholders elect members of the General Council, which administers the bank, but the Governor and two Deputy Governors, who are members of the Council, are appointed by the President of France on the proposal of the Finance Minister. The law does not provide for the Governor's removal nor is he appointed for any definite term.

The German Reichsbank is also a privately owned institution with the powers of the shareholders strictly limited. Under the provisions of the law before they were amended on October 28, 1933, the General Council, in the election of which the shareholders played a major part, chose the President of the bank with the

confirmation of the President of the Reich. Under the recent amendments the General Council is abolished and the President of the Reich is given the power to select and also to remove the President of the bank and members of the Managing Board, which directs the bank's policies. This gives the Government full control, although a great deal, of course, depends on the leadership of the bank head.

It may be stated that in every foreign country some relationship exists between the management of the central bank and the Government, either as a matter of policy and precedent or as a matter of law. A common arrangement is for the Government to appoint or share in the appointment of the members of the managing board for fixed terms and to have in addition a direct representative, usually the Finance Minister, serving as an ex-officio member. In Bulgaria, Hungary, and Greece the Government representative does not have a vote but a suspensive veto on decisions that he considers contrary to law or the public interest. Upon veto the decision is suspended until decided by a court of arbitration.

Where private shareholders participate in the selection of the managing board some legal precautions are usually taken to prevent centralization of control. In the United States, for example, all member banks have the same number of votes in choosing directors regardless of the number of Federal Reserve shares held. In France,

shareholders may not vote unless they are citizens and in France and England no shareholder may have more than one vote. In Canada shares may be held only by British citizens resident in Canada, and by Canadian corporations, to a limit of 50 shares. The arrangement in many countries, however, is less simple, the number of votes to each shareholder being determined by graduated scales often with a fixed maximum.

The Governor of the bank, frequently called the President, usually has broad powers, again a great deal depending in actual practice on the personal leadership of the incumbent. The extreme case is that of Canada where every decision of the bank requires the Governor's assent. The Governor of the Bank of France, according to the law, directs the business of the bank and is responsible for its administration. In practically every country the Government either appoints or participates in the appointment of the Governor, England being the most important exception.

The managing board is often a large body meeting at infrequent intervals. Under this arrangement an executive committee headed by the Governor is appointed, which is responsible to the board for continuous supervision of the bank. Many countries require that various occupations be represented in the management of the central bank. This practice is followed for example in the United States, Canada, South Africa, Hungary, and New Zealand. It is also commonly provided, that, aside from ex-officio members, board members may not be civil

servants or members of the legislature.

Profits - It is a generally accepted principle that in the formulation of its credit policy a central bank should not be guided by considerations of profit. Dividends that the central bank may pay to private shareholders are therefore universally subject to limitations, if not by law as in the United States, by practices as in England. In England the net profits of the issue department, which holds a large volume of securities against the fiduciary note issue, accrue entirely to the Government. Although the remainder of the bank's profits may be legally disposed of as the shareholders see fit, for some years the bank has kept the dividend rate unvaried at 12 per cent and after the war it voluntarily surrendered its extra war-time profits. The countries in which dividends payable to private shareholders are absolutely fixed are few. Usually dividends are graduated without prescribing an absolute fixed limit. Thus in Germany any profits in excess of 8 per cent, once surplus has reached the required level, are divided between the shareholders and the Government, the shareholders receiving a decreasing proportion as profits rise.

Note issue, reserve and cover requirements - There has been for many years a general world tendency for the issuing of currency to be concentrated in the hands of the central bank. This tendency has gained momentum, except in the United States where recently

there has been some movement in the other direction. In Canada the note circulation has been issued almost entirely by the commercial banks, but the new legislation provides that notes of the central bank shall gradually replace over the next ten years 75 per cent of the outstanding notes of the commercial banks. The Reserve Bank of New Zealand displaced the commercial banks as the issuer of notes when the bank was established in August, 1934. In Germany a small amount of notes issued by the four State banks have circulated alongside Reichsbank notes for some years. By a law passed in December 1933 the note-issuing privilege of the State banks will be withdrawn at the end of 1935.

As a reserve against notes in circulation, and in many countries against deposits also, central banks are required to hold gold and/or foreign exchange, a limited amount of silver sometimes being permitted. Exchange eligible for reserve purposes is often limited to gold currencies and occasionally, in countries maintaining close financial connections with England, to sterling. The minimum required reserve is expressed as a percentage of notes in circulation, and sometimes of deposits also, as an amount equivalent to notes in circulation in excess of a fiduciary issue; or a combination of both these methods is adopted. In some instances reserve requirements may be changed for limited periods as was done in England between August 1, 1931 and March 31, 1933, when the fiduciary issue was temporarily raised from £260,000,000 to £275,000,000. In some countries minimum reserve requirements may,

as in the United States, be reduced merely by action of the managing board, while in other countries, for example in England, the consent of the Government is necessary. When reserves are permitted to fall below the required minimum a penalty is usually imposed in the form of a tax paid by the bank to the Government and determined by a graduated scale based upon the extent of the deficiency in reserves. The bank's discount rate is often required to be raised by the extent of the tax.

In addition to requiring a minimum reserve to be held by the central bank, the laws of some foreign countries, like the Federal Reserve Act, prescribe that the note issue in excess of reserves must be covered by certain specified assets. Where all notes in excess of the fiduciary issue must be backed 100 per cent by gold as in the English system, the question of specifying collateral as cover for the fluctuating element in the currency does not arise. In Sweden, Germany, Belgium and Switzerland the types of collateral that must be held against notes in excess of reserves are defined broadly enough to comprise at the present time about 80 per cent of the bank's assets in Germany and a much larger proportion in the other countries. More frequently special collateral requirements against notes are omitted altogether, as in France, Netherlands, Italy, Canada, and New Zealand.

Central banks are normally under the obligation to purchase gold at a fixed rate and to sell reserves, or redeem notes, at a

fixed rate. In many countries the latter obligation has been suspended as the gold standard has become inoperative. Many countries have left the gold standard by the method of controlling the foreign-exchange market and restricting the free export of gold. A good share in the control of foreign-exchange transactions as in Germany, or direct operation in the exchange market with a view to regulating the exchange value of the currency as in England, has usually devolved upon the central bank and in such countries has become one of its most important functions.

Member bank reserves - The United States was the first country to require banks to maintain a minimum reserve balance at the central institution based upon a percentage of the banks' deposits. This system has since been adopted by New Zealand, South Africa, and a number of American countries including Canada. In most countries, however, banks are not required by law to maintain reserves, either in cash or central bank balances, equivalent to a certain proportion of deposits. Nevertheless, in practice they have traditionally done so. In England, France and Germany, to name only the more important, bank reserves are largely held in the form of deposits at the central bank, owing partly to such deposits being the equivalent of cash and partly to the role played by the central bank in the clearing system.

It is on the maintenance of minimum reserve ratios by commercial banks that the central bank depends in large part for

its influence on their credit policies, through the effect of the discount rate and of operations in the open market on the cost and availability of reserve funds. The maintenance of reserves permits the assets of the central bank to be greater than otherwise. If these assets are open-market material the power of the central bank to withdraw funds from the market if necessary is enhanced to that extent. Some central banks have means of acquiring assets without placing funds in the market, which increases their power of withdrawing funds through open-market operations. In New Zealand the Government has deposited securities with the bank which it is free to sell, and the Commonwealth Bank of Australia, although it has never used the power and is not strictly speaking a central bank, may issue debentures.

As a general rule central banks do not pay interest on deposits, although a few banks are either specifically empowered or else not prohibited by law from doing so, as in the United States, England, Netherlands, Japan, Belgium, and Sweden. From March 1916 to July 1919, the Bank of England paid interest as high as 5 per cent on special deposits which, in turn, it relented to the Government for war expenditures.

General business - The type of assets a central bank may acquire is in general limited to gold, silver, foreign exchange, Government securities, short-term commercial bills, and short-term advances on

specified security. The Government securities that a central bank may buy are usually confined to central or local Government securities of its own country, but in Canada the central bank may purchase Government securities of the United States, England, or France. In the United States, England, Germany, Switzerland, Italy, and Sweden, the amount of long-term Government securities the central bank may acquire is not restricted by law. This is not a general rule, however, In France, Netherlands, Belgium, and Japan, to name only a few, the central bank does not have the power to increase its holdings of long-term Government securities. The purchase of short-term, as well as long-term, Government securities is also often limited. In Germany the bank is not permitted to hold Treasury bills, either as a result of direct purchase or as collateral for loans, in excess of 400,000,000 reichsmarks at any one time.

The limitation on the amount of Government securities a central bank may hold is a result of the fear of excessive Government borrowing, which is reflected in the common provision that no loans shall be extended to the Government either directly or "indirectly" except at short term in anticipation of revenues. Experience shows, however, that in emergencies, as during a war, such restrictions have been set aside. The following table indicates the extent of central bank holdings of Government securities

on recent dates.

GOVERNMENT SECURITIES HELD BY CENTRAL BANKS ON RECENT DATES
Expressed as a percentage of total central bank credit

<u>Over 75 per cent</u>	<u>75 to 51 per cent</u>	<u>50 to 26 per cent</u>	<u>25 per cent or less</u>
United States	France	Germany	China
England	Australia	Belgium	Danzig
Bolivia	Austria	Denmark	Hungary
Bulgaria	Czechoslovakia	Estonia	Java
Chile	Ecuador	Italy	Netherlands
Columbia	Peru	Japan	Poland
El Salvador	Portugal	Latvia	South Africa
Greece	Rumania	Switzerland	Spain
Russia	Yugoslavia	Uruguay	Sweden
Turkey			

In the United States emergency legislation has greatly broadened the character of paper that the Federal Reserve banks may hold. The permanent provisions of the Federal Reserve Act, however, are among the most specific in carefully defining the character and class of such paper. The central banking laws of foreign countries as a rule define only broadly the type of eligible paper. For example, the law permits the Bank of France to discount bills of exchange and other commercial bills of not over three months maturity bearing proper endorsement without describing in detail the nature of the underlying transactions.

Central banks as a rule may grant advances against assets they are permitted to hold against Government securities; in England, Netherlands, and New Zealand against "securities"; and in Sweden and Switzerland against "obligations". A great deal depends, of course, on how these latter terms might be defined. On the balance sheet of the Bank of England all the bank's assets, excepting gold and currency, are

listed as securities. The period for collateral advances is usually three months but in Sweden is as long as 7 1/2 years for certain loans repayable in instalments. Central bank laws often provide for limited renewals but frequently renewals are neither specifically permitted nor prohibited. In some countries, e.g., Germany, Italy, Japan, and Belgium, the loan value of collateral against advances is defined by law as a percentage of the market value of the collateral, being as low as 50 per cent of market value for advances by the German Reichsbank against bonds of foreign Governments and as high as full market value for advances by the Bank of Italy against Treasury bills. On the other hand, in France, Netherlands, Switzerland, Sweden, Canada, and New Zealand the loan value of the collateral is not specified in the organic law.

Although generally speaking the type of assets a central bank may acquire is defined by statute there are some important exceptions. The Netherlands Bank may with Government approval engage in any business in the public interest. The central bank having the broadest powers is the Bank of England, there being only two important legal limitations on its business; the bank may not deal in merchandise nor may it grant loans to the Government without the express authority of Parliament. Parliament has given a standing authorization for temporary ways and means advances. It should be stressed, however, that although the Bank of England has few limitations on its business

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it lacks, as do many foreign central banks, specific legal authority in many important respects; for example, it has no legal power of supervision over the banking system.

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