CABINET

BANK OF ENGLAND BILL

Memorandum by the Chancellor of the Exchequer

I attach a draft of a Bill to bring the Bank of England under public ownership. Normally this Bill would have been examined by the Lord President's Committee before submission to the Cabinet, but, in view of the need for an early decision, having regard to the Parliamentary timetable and the hybrid nature of the Bill, I have consulted the Lord President, who has agreed that this memorandum should come direct to the Cabinet.

2. Clause 1 provides that the existing capital stock of the Bank, amounting to £14,553,000, shall be acquired by the Treasury from the stockholders in return for 3½ Government stock of such amount that "the sum payable annually by way of interest thereon is equal to the average annual gross dividend declared during the period of twenty years immediately preceding the 31st, March, 1945."

Sub-clause (4) gives the Treasury the right to redeem the stock at any time after 31st March, 1956; subject to that, the stock will be perpetual. Thus, the stockholders will, at any rate for 20 years, receive the same income, neither more nor less, than they have received in recent years. As regards capital values, it is thought that the market value of the Government Stock to be issued to owners of existing Bank Stock will be roughly the same as the present price of Bank Stock. (The average price of Bank Stock over the six months to 30th June last was 383).

3. Clause 2 provides that on the appointed day the present Court of Directors, consisting of a Governor, a Deputy Governor and twenty-four Directors, shall give place to a new Court of a Governor, two Deputy Governors and sixteen Directors, all appointed by His Majesty. Detailed provisions about terms of office, etc., are in the Second Schedule to the Bill.
3. Clause 4 sub-clause (1) confers on the Treasury the widest possible powers to give directions to the Bank of England, if such directions are necessary. We may hope, and expect, that resort to such formal directions will be very exceptional. It is intended that this power should be used in relation to issues of policy and that (as is indicated by sub-clause (2)) the day-to-day management of the Bank by the Court of Directors will not be interfered with.

Sub-clause (3) is designed to give the Bank of England, with the support of the Treasury, power of control over the commercial banks. Here again it may be hoped that the powers will not have to be formally used, but, if necessary, they will give control over such matters as the credit policies of the banks.

(Intld) H.D.

Treasury Chambers, S.W.1.

10TH SEPTEMBER, 1945.
ANNEX
DRAFT
OF A
BILL
To
Bring the Bank of England under public control, to make provision for regulating banking operations and for purposes connected with the purposes aforesaid.

Be it enacted, etc.

Transfer of 1. On the appointed day -
Bank stock To Treasury.

(1) the whole of the existing capital stock of the Bank of England (hereinafter referred to as "Bank Stock") shall, by virtue of this section, be transferred to such person as the Treasury may nominate, and shall be held by that person on behalf of the Treasury free of all trusts, liabilities and incumbrances;

(b) the Treasury shall issue, to every person who immediately before the appointed day is registered in the books of the said Bank as the holder of any Bank stock, the equivalent amount of stock created by them for the purpose (hereinafter referred to as the "government stock").

(2) The government stock shall bear interest at the rate of three per cent per annum; and the equivalent amount of the government stock shall, in relation to any person, be taken to be such that the sum payable annually by way of interest thereon is equal to the average annual gross dividend declared during the period of twenty years immediately preceding the thirty-first day of March, nineteen hundred and forty-five upon the amount of Bank stock of which that person was the registered holder immediately before the appointed day.

(3) The interest upon the government stock shall be charged on and issued out of the Consolidated Fund of the United Kingdom or the growing produce thereof.
(4) The government stock may be redeemed at par by the Treasury at any time after the thirty-first day of March, nineteen hundred and sixty-six after giving not less than three months' notice in the London Gazette of their intention to do so.

(5) The Treasury may, for the purpose of providing any sums required by them in order to redeem the government stock, raise money in any manner in which they are authorised to raise money under the National Loans Act, 1939, and any securities created and issued to raise money under this subsection shall be deemed to have been created and issued under this Act.

(6) No dividends shall be paid on the Bank stock in respect of any period after it has been transferred under subsection (1) of this section; but in lieu of any such dividends the Bank shall pay to the Treasury, in respect of the year beginning with the appointed day and each subsequent year, the sum of £1,746,360 or such less or greater sum as may from time to time be agreed upon between the Treasury and the Bank.

Any sum paid to the Treasury under this subsection shall be paid into the Exchequer.

(7) The incidental and supplemental provisions set out in the First Schedule to this Act shall have effect with respect to the government stock.

2.- (1) On the appointed day, all persons who are, immediately before that day, members of the court of directors of the Bank of England shall vacate their office, and on and after that day the court shall consist of a Governor, two Deputy Governors and sixteen directors.

(2) The Governor, Deputy Governors and directors shall be appointed by His Majesty.

(3) A quorum of the court shall consist of not less than eight directors together with the Governor or one Deputy Governor, and when a quorum is present the court may act notwithstanding that a vacancy exists among the members of the court.

(4) The provisions of the Second Schedule to this Act shall have effect as respects the tenure of office and qualifications of members of the court of directors.

(5) Not more than four of the directors may be employed to give their exclusive services to the Bank.
3.-(1) On the appointed day the charters of the Bank of England and any byelaws in force thereunder shall, by virtue of this sub-section, be revoked, but the revocation thereof shall not affect the existence of the Governor and Company of the Bank of England as a corporation incorporated by Royal Charter, and the members of the corporation shall be the members of the court of directors for the time being together with the person who holds the capital stock of the Bank on behalf of the Treasury.

(2) Subject to the provisions of this Act, the Bank of England shall be constituted and regulated in accordance with such charters as may from time to time be granted by His Majesty and accepted on behalf of the Bank by the court of directors.

4.-(1) The Treasury may from time to time give such directions to the Bank of England as, after consultation with the Governor of the Bank, they think necessary in the public interest.

(2) Subject to any such directions, the affairs of the Bank shall be managed by the court of directors in accordance with such rules, if any, as may be laid down by the charter of the Bank and any byelaws made thereunder.

(3) The Bank of England may, either in pursuance of such directions or otherwise, request information from, and make recommendations to, banks in regard to banking operations, and the Treasury may, if they think it expedient in the public interest, make such regulations and give such directions as they think necessary for the purpose of ensuring that any such request or recommendation is carried out.

(4) In this section the expression "bank" means any person carrying on an undertaking which the Treasury by order declare to be a banking undertaking for the purposes of this section.

5. For the purpose of this Act the appointed day shall be such day as the Treasury may by order determine, not being later than three months from the day of the passing of this Act /the thirty-first day of March, nineteen hundred and forty-six/.

6. This Act may be cited as the Bank of England Act, 1945.
FIRST SCHEDULE

(Ancillary provisions as to registration, transfer, etc., of Government securities.)

SECOND SCHEDULE

Supplementary Provisions as to Court of Directors

1. The term of office of the Governor shall be five years, and the term of office of the Deputy Governors shall be four years.

2. The term of office of the directors shall be four years, and four of them shall retire each year on the anniversary of the appointed day:

Provided that, of the directors appointed to take office on the appointed day, four shall be appointed to hold office until the first anniversary of that day and shall then retire, four shall be appointed to hold office until the second anniversary of that day and shall then retire, and four shall be appointed to hold office until the third anniversary of that day and shall then retire.

3. A person who has held office as Governor, Deputy Governor or director shall be eligible for re-appointment.

4. A person shall be disqualified for holding the office of Governor, Deputy Governor or director if:

(a) he is a member of the Commons House of Parliament or a person holding an office of profit under the Crown; or

(b) he is subject to any disqualification which may be imposed by the charter of the Bank,

and a person shall vacate any such office if he becomes subject to any such disqualification.

5. Where the office of a director is vacated under the foregoing paragraph, or by death or resignation, a person appointed to fill the vacancy shall hold office until the time when the person in whose place he was appointed would regularly have retired, and shall then retire.