

1931.

NEW ZEALAND.

## BANKING AND CURRENCY IN NEW ZEALAND

(REPORT ON, BY SIR OTTO NIEMEYER, G.B.E., K.C.B., OF THE BANK OF ENGLAND).

*Laid on the Table of the House of Representatives by leave of the House.*

## REPORT.

SIR,—

19th February, 1931.

1. In July last you were good enough to ask me to advise on the banking and currency system of New Zealand, having regard to the position in which that system has emerged from the war, and to the fact that the existing Proclamation under which inconvertible notes are legal tender in New Zealand expires on the 10th January, 1932. Since then I have been so fortunate as to be able to visit New Zealand and discuss these issues with the New Zealand Treasury and with the representatives of the six banks operating in New Zealand. I have the honour now to present the following report :—

2. At the present time the issue of legal-tender currency, apart from subsidiary coin, is entrusted to the six commercial banks. Although before the war gold coin was in circulation and notes were redeemable in gold, that coin has now been withdrawn and the inconvertible notes of the individual banks constitute the sole legal-tender currency. Under wartime regulations still in force, the banks are no longer obliged to keep any gold coin as cover for their notes issued, and there is a legal prohibition on the export of gold coin except with the approval of the Finance Minister. In fact, however, there is held in New Zealand by the banks gold to an amount roughly equivalent to the total notes issued.

3. The factor actually determining the volume of the currency issued in New Zealand is not the physical amount of gold held by the banks, but the general credit position as represented by the balances held by those banks in sterling. It is no accident that the volume of credit in New Zealand is not governed by the limits of currency imposed by note-issue legislation; notes or other monetary circulation are merely the consequence, and not the cause, of a given volume of credit. On a given credit structure public convenience demands a certain amount of notes, and it is credit which governs currency, and not *vice versa*. This was probably true at all times, but it is increasingly true to-day, when means of payment are even less confined to notes and coin than they were fifty or sixty years ago. Equally it is clear that the credit position in New Zealand must to a great extent be governed by the balances held in that market with which the major commercial and financial transactions are conducted—that is to say, London.



4. The first question which appears to me to arise is whether New Zealand should revert to the pre-war currency system with gold coin in circulation and with a liability to pay notes internally in gold. On this point I should strongly recommend permanent legislation making the New Zealand note internally inconvertible, as it is in fact now, and as a consequential measure removing the prohibition on the export of gold coin, which will no longer be necessary. It is generally recognized by monetary authorities that the main purpose of a gold reserve is to meet possible calls for foreign exchange. The gold standard consists essentially in an obligation on countries adhering to that standard to provide gold or its equivalent at certain fixed rates for payment to one another. It is no essential part of the gold standard to provide gold coin for internal use, and the absence of such liability is no departure from the gold standard as such. So long as New Zealand recognizes a liability to pay gold or its equivalent at definite rates abroad, she will be just as much on the gold standard if there is not a single gold coin in circulation in New Zealand, and no liability to pay gold coin for notes internally.

Further, under modern conditions the use of gold coin as an internal circulating medium has in fact steadily decreased. In those countries where it is still a legal obligation to pay notes internally in gold, in practice very little gold coin is in circulation. In many countries, as is well known, even the legal obligation has been removed. In the United Kingdom, for instance, under the Act of 1925, the Bank of England cannot be called upon to pay its notes in gold, except in gold bullion bars containing 400 oz. of fine gold, worth about £1,700 each. In effect, this provision amounts to an obligation to provide gold only for export in settlement of foreign exchange payments.

In past days, when notes were a much larger proportion of the total purchasing media, when international financial connections were much more limited, and when notes represented usually the private liabilities of numerous competing banks, the position was different. A bank had no means of meeting its obligations to note-holders except by payment in coin, and an individual bank could not afford, *vis-à-vis* its competitors, the risk of a run which it could not face. But in countries with an adequate central banking system, in which the Central Bank is responsible for the maintenance of the currency and must always be prepared to provide against proper securities legal tender for internal obligations, the internal need for payment in coin has ceased to exist.

On a wider consideration, and having regard to the existing and prospective supplies of gold available as a basis for monetary purposes, it is of the utmost importance to economize in the use of gold. The scattering of gold about a country in the form of circulating gold coins (or in the form of gold dormant held in private banks) removes that gold from effective influence on the monetary position. A shortage of monetary gold, to which the putting of gold coin in circulation would contribute, tends to accentuate a restriction of credit, and that in its turn to precipitate a fall in the money prices of commodities. Countries, such as New Zealand, which are essentially primary producers, are heavily interested in any step tending to check the continued decline of world prices, and they have therefore a strong interest in doing all they can to avert a gold-shortage. It would probably be impossible, in any case, for New Zealand to revert to a gold coinage in internal circulation; but even if it were possible, it would be in theory a retrograde step and in practice inimical to the best interests of New Zealand.

An internal gold circulation is not merely an unnecessary luxury from the point of view of New Zealand, but also would be contrary to modern views on currency, and likely, *pro tanto*, to be a factor in bringing about a world gold-shortage, from which New Zealand, among other countries, would suffer.

5. The question as to the medium into which New Zealand notes should remain externally convertible is the easier to answer in view of what is now in fact the practice of some years' standing. New Zealand is in practice already on a sterling exchange standard: her obligations abroad are for the greater part satisfied by the offering of sterling balances in London, which are the equivalent of gold, and the vast preponderance of her trade and her indebtedness is with the United Kingdom. In many European countries on the gold standard, though not in



England, the Central Bank can acquit itself of its liability in respect of the redemption of its notes by tendering, at its option, either gold or foreign gold exchange (that is to say, payment in the legal-tender currency of a country effectively bound to allow the export of gold), and in consequence is authorized to hold such foreign exchange as part of its gold reserve. The degree to which such countries in fact pay in foreign exchange as against gold varies, but a system by which they pay solely in gold foreign exchange is a well-recognized and perfectly practicable method. It has for years been the practice of the Indian Government, which maintains for the purpose sterling reserves in London. It is the practice of Currency Boards in many parts of the Empire. It is also the practice of the Irish Free State, whose Note-issue Board hold reserves in London, mostly invested in short-term sterling bills, and who undertake a liability to pay their notes in London in sterling or to give notes in Dublin for sterling at fixed rates.

I recommend that New Zealand should formally adopt the sterling exchange standard, thereby bringing the regulations governing the currency system into accord with standing practice and providing a separate basis for New Zealand exchange dependent only on her own balance of payments, and incidentally transforming into an earning asset the present holding of dormant gold.

6. It would, I think, be difficult to make it mandatory on private banks to buy or sell sterling at rates not exceeding the limits of the import and export gold points. For this reason, and, indeed, also from the point of view of general currency practice, it would appear desirable to concentrate the New Zealand note-issue in the hands of one authority. A single and uniform note-issue is an essential principle of central banking, and, with few exceptions, has been adopted by all modern countries. It is not desirable that the privilege of issuing legal-tender money should be in the hands of private trading banks, and, as banks who surrender such a privilege are also relieved of the liability for their notes, they have no reason to complain of the transfer of the note-issuing privilege to a central body, especially in a case where, as in New Zealand, the level of special taxation on note-issues has reached a point at which (according to the banks' statement) the issue is no longer profitable.

7. The status, constitution, and functions of the body which should manage a unified note-issue obviously depend to a great extent on the size and complexity of the unit involved and the purposes which it is desired to achieve. I do not think that either a Notes Board or a Currency and Exchange Board would offer a permanently satisfactory solution in New Zealand.

The functions of a Notes Board would be purely automatic. Such a Board would have no other function than the internal management of the currency, involving, after the initial replacement of the existing note-issues, no more than the issue of notes against such assets as might be authorized by law. The defect of such an organization is that not only could the Board have no influence on the development of the credit situation, but it would have no effective means of regulating the exchange in accordance with that situation.

A Currency and Exchange Board charged with the statutory duty not only of managing the note-issue, but also of providing exchange, would have a slightly larger scope. Such a Board would undertake to buy and sell exchange within the gold points. If the exchange showed signs of weakening in London, the New Zealand office of the Board would offer to sell exchange on London at a fixed price. If New Zealand money showed signs of appreciating in terms of sterling, the office of the Board in London would offer to sell exchange on New Zealand at appropriate rates. This scheme has the merit of connecting the maintenance of the exchange with the management of the note-issue. It has, however, the defect that the credit conditions which might make for unstable exchanges could not directly be influenced by the Exchange Board, which could only operate to the extent of the assets it actually held.

The course which I should recommend would be the establishment (as in other Dominions) of a Reserve Bank of a size appropriate to New Zealand's conditions. Such a bank would necessarily be charged with the duty of managing the note-issue, accepting the responsibility for the ultimate stability of the exchange, holding reserve balances of the trading banks, and carrying the Government account.



8. The general advantages of such an institution, if based on sound principles, are, I think, very considerable. It would, obviously, perform the functions that might be discharged by either of the two alternative organizations mentioned above; but it would, in addition, be able to exercise a gradually increasing influence over the credit situation in New Zealand, and by timely action minimize the disturbances in either direction which are liable to arise out of an unregulated or imperfectly regulated market. A Reserve Bank would further provide machinery which is not only useful but also indispensable for the gradual development over a period of years of a short-term money-market in New Zealand. Finally, such a bank would provide an instrument for co-operation with the Central Banks of other countries—a co-operation which is becoming of increasing importance and which at present finds no suitable point of contact in New Zealand.

I am aware that certain objections may be urged against the establishment of a Reserve Bank in New Zealand in the present stage of the country's development. It may be argued that the money-market of the country is at present too slightly developed either to make it necessary to have a Reserve Bank, or to render the adequate functioning of such a bank possible if it were established. It may be said that in New Zealand there is no bill-market, no short-loan market, and, generally speaking, no money-market in the full sense of the term, and that in the absence of these features the services that could be rendered by a Central Bank would be greatly curtailed.

I have given mature consideration to these arguments, and, without wishing to minimize their importance, I am definitely of opinion that they do not constitute insuperable objections to the establishment of a Reserve Bank in New Zealand. I have outlined above the principal advantages which would accrue from the establishment of such a bank, and I would repeat that if the absence of such factors as a short-term market and a bill-market leaves a gap in the financial structure of the country the process of closing such a gap can begin in no other way, or certainly in no more effective way, than by the establishment of a Reserve Bank. A money-market follows the creation of adequate central machinery, and cannot effectively exist, or be expected to exist, until the machinery is available. Nor am I of opinion that the volume of New Zealand's financial transactions, internal and external, and the development of her banking system, are insufficient to warrant the establishment of a Reserve Bank: it is perhaps enough to point out that not only South Africa but many European countries of less financial importance have established and are operating successfully a modern type of central bank.

9. But the recommendation to establish a Reserve Bank is subject to two fundamental conditions.

In the first place, the bank must be entirely free from both the actual fact and the fear of political interference. If that cannot be secured, its existence will do more harm than good, for, while a Central Bank must serve the community, it cannot carry out its difficult technical functions and cannot hope to form a connecting-link with the other Central Banks of the world if it is subject to political pressure or to influences other than economic. Experience has shown that the best method of safeguarding the independence of a Central Bank is to constitute the Central Bank as a private corporation with a capital subscribed by the general public and an independent Board of Directors elected by the shareholders. Such a constitution does not mean that the bank is conducted for the private profit of a few individuals, for it is perfectly competent to limit the maximum dividends, to provide for the payment to the State of any excess profits, to limit the voting-rights of the shareholders so as to prevent the undue prominence of any single group, to place restrictions on the choice of directors, and, if desired, to provide for the confirmation of the appointment of the Governor and Deputy Governor by the Governor-General.

In the second place, in order that the bank may effectively discharge its functions in regulating the credit conditions of a country, it should hold both the banking balances of the Government and the reserve balances of the trading banks. Trading banks are bound to hold liquid reserves, and it is no hardship to them that those reserves should be concentrated in a Reserve Bank. In fact, it is usual that



either by law or custom they should be required to keep a certain percentage of their reserves with the Reserve Bank. In the case of New Zealand I would suggest that the requirement should be 7 per cent. of demand liabilities and 3 per cent. of time liabilities.

Provided these two conditions can be fulfilled, I should recommend the establishment in New Zealand of a Reserve Bank on recognized lines, to which should be given the exclusive right for a period of years of note-issue in New Zealand, the custody of Government balances, and the custody of the minimum reserves of the trading banks.

It must, of course, be recognized that the sphere and function of a Reserve Bank is entirely different from those of trading banks. A Reserve Bank must not be expected or called upon to act as a trading bank: and it should itself be careful not to compete with trading banks. The statutes which are suitable for reserve functions properly exclude much that would be perfectly legitimate trading banking. The distinction is vital.

10. To avoid overloading the report with a multitude of matters which, though of great importance, are of a technical nature, I have put my detailed suggestions for carrying out the proposals indicated above in the form of draft statutes modelled on the lines of general central banking legislation, with such modifications as seem indicated in the circumstances of New Zealand.

11. I would here only summarize my recommendations as follows:—

- (1) That permanent legislation should be passed making the New Zealand note inconvertible in New Zealand but convertible into sterling at rates fixed within certain limits;
- (2) That an independent Reserve Bank should be set up charged with responsibility for the stability of New Zealand currency, invested with the privilege of note-issue, and charged with holding the Government account and the banking reserves of New Zealand;
- (3) That the note-issue should be unified and concentrated in the Reserve Bank, the note-issuing powers of existing banks being abrogated;
- (4) That the trading banks should be required to transfer to the Reserve Bank the gold they now hold in New Zealand in exchange either for Reserve Bank notes, with which they can pay off their own notes, or for credit at the Reserve Bank;
- (5) That the trading banks should be required to keep with the Reserve Bank minimum reserves of 7 per cent. of their demand liabilities in New Zealand and 3 per cent. of their time liabilities in New Zealand;
- (6) That thereafter the existing prohibition on the export of gold coin from New Zealand should be withdrawn.

I am, Sir,

Your obedient servant,

O. E. NIEMEYER.

The Right Hon. G. W. Forbes.

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## SUGGESTED POINTS FOR INCORPORATION IN NEW ZEALAND BANK LAW.

1. *Foundation*.—There shall be constituted, under the name of “The Reserve Bank of New Zealand” (hereinafter referred to as the bank), a company limited by shares, which shall be governed by the statutes contained in the annexed Schedule A.

2. *Capital*.—The original capital of the bank shall be £500,000, in fully-paid shares of £5 each, all of which shall be offered by the New Zealand Government for public subscription in New Zealand. In the event of any of the capital not being subscribed by the public within three months of the date of issue, the New Zealand Government shall take up such capital, but shall offer it for subscription by the public at par so soon as, in the opinion of the Board of Directors of the bank, market conditions permit.

3. *Reserve*.—The sum of £1,000,000 shall be paid by the Treasury to the bank and shall be utilized in the first instance to take up any shares in the original capital of the bank for which the public shall not have subscribed, the balance being paid into the General Reserve Fund of the bank. Subsequently the amount, if any, utilized in the purchase of shares shall be paid to the General Reserve Fund as and when the shares are sold in accordance with section 2 of this Act.

4. *Issue of Notes*.—The bank shall have the sole right to issue notes in New Zealand for a period of twenty-five years from the commencement of this Act: Provided that for a period of six months from the commencement of this Act, or such longer period as may elapse before the bank is in a position to issue its notes in substitution for the notes in circulation of other banks, the banks issuing notes in New Zealand at the commencement of this Act may continue to issue notes under the provisions of the several laws then in force.

As soon as the bank has notified the Treasury that it is in a position to issue notes, the other banks shall, on a date to be fixed by Proclamation in the *Gazette* (which shall not be more than one month after the receipt of such notification) cease to issue or reissue notes, other than Reserve Bank notes, and shall redeem any of their notes outstanding with Reserve Bank notes.

5. *Transfer of Gold Coin and Bullion*.—As from such date as the Reserve Bank may decide, all banks transacting business in New Zealand shall pay over to the Reserve Bank in exchange for Reserve Bank notes or for credit at the Reserve Bank all gold coin or bullion held by them in New Zealand.

6. *Minimum Cash Reserves to be maintained by the other Banks against Deposits*.—Every bank transacting business in New Zealand shall be required, as from the establishment of the bank, to maintain balances in the Reserve Bank equal to at least 7 per cent. of its demand liabilities in New Zealand, other than notes, and 3 per cent. of its time liabilities to the public in New Zealand, as shown in the last preceding monthly return rendered under section 7 of this Act. When it appears from any monthly return that any bank has failed to maintain such reserve balance, it shall be competent for the Reserve Bank to call for such further return or make such inspection of the books and accounts of the bank in default as may be necessary to ascertain the amount of the deficiency and the period during which it continued, and the bank so in default shall incur a penalty recoverable by action in a competent Court at the rate of 10 per cent. per annum on the amount of the deficiency for each day that it continued. No bank may at any time make new loans or pay dividends unless and until the reserve balance required under this section is restored.

7. *Monthly Return*.—A return made up to the date of the close of business at the end of every month, and signed by the manager and the accountant of every bank which transacts business in New Zealand, or by other principal officers acting on their behalf, shall be sent to the Reserve Bank, Wellington, by such bank within twenty-one days after such date, showing—

- (a) The amount of the demand and time liabilities of the bank in New Zealand;
- (b) The amount of the demand and time liabilities of the bank in foreign exchange;
- (c) The reserve balances held in the Reserve Bank of New Zealand;
- (d) Foreign assets of the bank;
- (e) The gold and subsidiary coin held in New Zealand;
- (f) The total amount of its advances and discounts in New Zealand;
- (g) The amount of Reserve Bank notes held;
- (h) The amount, if any, of the bank's own notes issued in or payable in New Zealand and in circulation;

and the bank shall cause a summary of such monthly return for each bank to be sent to the Treasury for publication in the *Gazette*.

If any bank fails to comply in any respect with the requirements of this section it shall incur a penalty, recoverable by action in a competent Court, of £10 for each day during which it is in default.

8. *Provisions of this Act in relation to other Laws*.—The provisions of this Act shall be in addition to and not in substitution for any provisions of any other law relating to currency or banking, and if the provisions of such other law are in conflict with or inconsistent with the provisions of this Act the provisions of this Act shall prevail.



9. *Interpretation of Terms.*—In this Act, unless inconsistent with the context,—

“Bank” or “banker” means and includes every person, firm, or company using in its description or title “bank,” “banker,” “banking,” and every person, firm, or company receiving or accepting deposits of money subject to withdrawal by cheque, draft, or order, excepting savings-banks established under the provisions of the Savings-banks Act, 1908:

“Bank-note” means any bill, draft, or note issued by any bank for payment of money to bearer on demand, or which entitles or is intended to entitle the holder, without endorsement, or any further endorsement than may exist thereon at the time of issue, to the payment of any sum of money on demand, whether the sum shall be so expressed or not:

“Demand liabilities” means and includes all liabilities payable within thirty days or subject to less than thirty days’ notice before payment:

“Reserve balance” means balances held by other banks in the bank:

“Time liabilities” means and includes all liabilities payable after thirty days, or subject to not less than thirty days’ notice before payment.

NOTE.—It appears desirable that provision should also be made for the following:—

- (1) Penalties for forging or defacing the notes of the Reserve Bank;
- (2) The repeal of the existing restrictions on the export of gold coin.

## SCHEDULE A.

### STATUTES OF RESERVE BANK OF NEW ZEALAND.

#### CHAPTER I.—NAME, SEAT, AND OBJECT.

1. There shall be constituted, under the name of “The Reserve Bank of New Zealand” (hereinafter referred to as the Bank), a company limited by shares.

2. The bank shall be registered and have its head office in Wellington, New Zealand. The bank is empowered to establish branches or agencies or appoint agents anywhere in New Zealand, and may open agencies or appoint agents abroad.

3. The primary duty of the bank shall be to ensure that the value of its notes remains stable. To this end it must exercise control, within the limits of its statutes, over monetary circulation and credit in New Zealand.

#### CHAPTER II.—CAPITAL AND RESERVE.

4. The original capital of the bank shall be £500,000, in fully-paid shares of £5 each, all of which shall be offered for public subscription in New Zealand.

5. The shares shall be registered and transferable in the books of the bank.

The bank shall be entitled, without assigning any reason, to decline to accept any person or corporation as the transferee of a share.

6. Any premium obtained on any issue or sale of shares shall be added to the General Reserve Fund.

7. The share capital of the bank may be increased by the Board from time to time, subject to the consent of a general meeting of shareholders and with the approval of the Treasury.

8. The General Reserve Fund (and Special Reserve Funds, if any) shall be built up out of the annual net profits as provided for in Article 51.

#### CHAPTER III.—GENERAL MEETING.

9. Decisions of the general meeting of shareholders are binding upon all shareholders, including those absent from, or disqualified from voting at, a meeting, or dissentient from the decisions taken thereat.

10. The ordinary general meeting shall be convened by the Board, and held regularly once in every year not later than the month of July.

All questions to be discussed at the ordinary general meeting will be placed on the agenda by the Board.

Motions to be proposed by shareholders must be communicated to the Board not later than thirty days before the ordinary general meeting, accompanied by a statement of the arguments in support of them.

11. Extraordinary general meetings shall be held as often as may be required, and shall be convened by the Board.

On the request in writing of duly qualified shareholders representing at least one-quarter of the subscribed capital, the Board must call an extraordinary general meeting, which shall take place within thirty days from the date of such request. Every such demand shall be accompanied by the motions which are to be submitted to the meeting and by a statement of the arguments in support of them.

12. Notices to attend a general meeting shall be forwarded to the shareholders by letter to the address entered on the register, not later than twenty-one days before the meeting. The notice must specify: (a) The day and hour of the meeting; (b) the place of the meeting; (c) the agenda.

In the case of the ordinary general meeting the notice must be accompanied by a copy of the annual accounts and report, and copies of these documents shall also be available to shareholders at all offices of the bank. The notice shall likewise be published in the *Gazette*, and in such newspapers as may be selected by the Board, at least twenty-one days before the meeting.



13. Any shareholder who is a British subject and normally resident in New Zealand shall be entitled to one vote at a general meeting of shareholders in respect of every share of which he has been the registered proprietor for not less than six months immediately preceding the date of the meeting, but no one shareholder may exercise more than 1,000 votes in his own name and 1,000 as proxy.

No voting-rights shall attach to any shares in the ownership of the Treasury.

14. Every shareholder is entitled to transfer his right of voting at a general meeting to some other shareholder by proxy, subject to the limitation of voting-power laid down in Article 13.

15. The general meeting shall deal with the following matters :—

- (a) Approval of the annual accounts and report of the directors ;
- (b) Appropriations to the reserve and other funds ;
- (c) Declaration of annual dividends ;
- (d) Election or removal of members of the Board of Directors (Articles 23 and 30) and auditors (Article 56), and the sanctioning of their fees and expenses ;
- (e) Proposals to amend these statutes : such proposals, except those for an increase of capital (Article 7), will require parliamentary sanction.

16. At general meetings the chair shall be taken by the Governor of the bank, or, in his absence, by his deputy.

The Chairman shall not vote unless equal votes have been cast, in which case he shall have the deciding vote.

17. Except where otherwise provided, resolutions shall be adopted by a simple majority of votes of the shareholders present or represented by proxy.

#### CHAPTER IV.—MANAGEMENT.

18. The general conduct of the business of the bank shall be entrusted to a Board of Directors responsible to the general meeting, and consisting of a Governor, Deputy Governor, and five other members.

##### (a) Governor and Deputy Governor.

19. The Governor and Deputy Governor shall be elected by the general meeting for a period of seven years, shall devote their whole time to the affairs of the bank, and shall receive such salaries and allowances respectively as may be determined by the Board of Directors, provided that the Governor and Deputy Governor shall not be remunerated by any form of commission or share in profits reckoned on the earnings of the bank. The election of the Governor and Deputy Governor must receive the approval of the Governor-General in Council.

The first Governor and Deputy Governor of the bank shall, however, be appointed for seven years by the Governor-General in Council.

Both the Governor and the Deputy Governor shall be eligible for re-election.

20. The Governor and the Deputy Governor shall be persons of banking experience ; they shall not act as directors of any business nor engage in any business on their own account ; nor shall they hold any interest in any other bank.

The provisions of Article 24 shall apply to the Governor and Deputy Governor equally with the other directors.

21. The Governor shall, on behalf of the Board of Directors, be in permanent control of the administration of the bank's assets and general business, taking decisions in all cases not specifically reserved to the Board or to the general meeting of shareholders or governed by regulations which either of these have issued.

22. The Governor may delegate such of his functions as he thinks fit to the Deputy Governor, who, in any case, shall take the place of the Governor during the latter's absence for any reason.

If the Governor and Deputy Governor are both prevented from carrying out their duties, the Board of Directors shall nominate one of its members to act *ad interim* as Governor.

##### (b) Board of Directors.

23. The members of the Board, other than the Governor and Deputy Governor, shall be elected for a period of five years by the shareholders at a general meeting. Two must be elected from persons who are, or have been, actively engaged in primary industries and two from persons who are, or have been, actively engaged in industrial or commercial pursuits. Not more than one of the Directors may also be a director of any other bank.

The first Board of Directors shall, however, be appointed by the Governor-General in Council. One member of the first Board of Directors, other than the Governor or Deputy Governor, shall retire at the end of each of the first five years, the order of retirement being decided by ballot. Thereafter the Directors shall retire annually in accordance with their length of service. Retiring Directors shall be eligible for re-election.

24. Only shareholders with voting-rights shall be eligible for election to the Board of Directors, but the following are disqualified from holding office as members of the Board :—

- (a) Members of Parliament ;
- (b) Officials or employees of the State ;
- (c) Directors, officers, or employees of other banks, except as provided in Article 23.

25. If a casual vacancy occurs on the Board of Directors, the remaining members of the Board shall appoint a substitute Director, who shall hold office until the next ordinary general meeting, which shall appoint him or some other person to serve for the unexpired period of office of his predecessor.



26. The Governor, or, in his absence, the Deputy Governor, shall summon a meeting of the Board of Directors as often as may be required, but not less frequently than once a month, and shall take the chair at these meetings. The Governor shall also convene the Board of Directors when requested to do so by three of its members.

27. Decisions of the Board of Directors shall be valid only when, in addition to the chairman, at least three of the other Directors are present.

Decisions shall be taken by a simple majority of votes.

In the case of an equality of votes, the chairman shall have a second or casting vote.

28. The Directors shall receive such fees and expenses as may be determined by the Board and sanctioned at a general meeting.

29. The Board of Directors shall have power to deal with the following matters:—

- (a) Rates of discount and interest :
  - (b) The general conditions, and limits of the various categories of authorized business :
  - (c) The internal regulations of the bank :
  - (d) The opening and closing of branches and agencies :
  - (e) The organization of a clearing-house :
  - (f) The approval of balance-sheets and profit and loss accounts for presentation to general meetings :
  - (g) The purchase and sale of real property required for the business of the bank :
  - (h) The form, denomination, design, and material of bank-notes, which shall be submitted to the Treasury for approval ; also the manufacture, custody, issue, redemption, retirement, and cancellation of bank-notes.
30. The Governor, Deputy Governor, or a Director shall be deemed to have vacated his office if—
- (a) He becomes bankrupt or insolvent or applies to have the benefit of any Act for the relief of bankrupt or insolvent debtors, or compounds with his creditors, or makes an assignment of his remuneration for their benefit ; or
  - (b) He becomes permanently incapable of performing his duties.

(c) *Executive Committee.*

31. The Governor, the Deputy Governor, and one Director shall constitute an Executive Committee, whose decisions shall be recorded in minutes. This committee is competent to take any decision upon any question which falls within the competence of the Board of Directors, provided that the decisions of the committee are submitted to the Board for confirmation at its next session. In cases of urgency the committee is authorized to alter the rate of discount. The presence of all members of the committee is necessary at meetings at which a decision to alter the rate of discount is taken.

32. The Executive Committee shall act as a Discount Committee, and deal with discounts and credit limits within the general authority given by the Board, and such other matters as the Board of Directors may decide.

CHAPTER V.—POWERS OF THE BANK.

(a) *General Business.*

33. The bank may—

- (a) Make and issue bank-notes :
- (b) Buy and sell gold and silver coin or bullion :
- (c) Accept money on deposit or current account without interest, except as provided in Article 39 :
- (d) Discount, rediscount, buy, and sell bills of exchange, promissory notes, and other paper arising out of *bona fide* commercial transactions and bearing two or more good signatures and maturing within 120 days of the date of acquisition ; also agricultural bills maturing within six months of the date of acquisition, provided that the latter type of bills does not exceed 40 per cent. of the internal bills held :
- (e) Subject to the provision of Article 34 (i), discount, rediscount, buy, and sell Treasury bills or bills of any public body maturing within three months :
- (f) Grant advances for fixed periods not exceeding three months against—
  - (1) Gold coin and bullion, or the documents relating to the shipment thereof ;
  - (2) New Zealand Government and local-body securities and such marketable securities as have a ready sale on the New Zealand Stock Exchange as may be approved for that purpose from time to time by the Board ;
  - (3) Such notes and bills as are specified in sections (d) and (e) of this article ;
  - (4) One-name promissory notes of any bank carrying on business in New Zealand, with a maturity not exceeding fifteen days, and covered by any collateral security which the bank is empowered to discount or accept as security for a loan or advance :
- (g) Buy and sell New Zealand Government or British Government securities for its own account: Provided that the amount held of such securities of more than three months' currency shall not exceed the paid-up capital and reserves :
- (h) Buy and sell foreign currencies :
- (i) Issue and manage, but not underwrite, New Zealand Government loans and loans of other public bodies in New Zealand :
- (j) Organize a clearing system :
- (k) Act as correspondent or agent for any bank outside New Zealand :
- (l) Do any banking business consequential on and in keeping with the provisions of these statutes.



34. The bank may not—

- (a) Issue notes of a denomination of less than 10s. :
- (b) Engage in trade or otherwise have a direct interest in any commercial, industrial, or other similar undertaking :
- (c) Purchase its own shares or the shares of any other bank, or grant loans on the security thereof, excepting those of the Bank for International Settlements :
- (d) Make unsecured loans or advances :
- (e) Purchase or make advances on real estate, except as provided in Article 35 or as may be required to enable the bank to conduct its business :
- (f) Pay interest on money placed on deposit or current account with the bank, except that interest may be paid to the New Zealand Government on foreign balances as provided for in Article 39. In particular, the bank shall pay no interest on the deposits which other banks are required to keep with it, amounting to 7 per cent. of the demand liabilities and 3 per cent. of the time liabilities of those banks :
- (g) Allow the renewal of maturing bills of exchange purchased or discounted by, or pledged to, the bank, save, in exceptional circumstances and after a resolution passed by the Board of Directors, in which case one renewal may be permitted :
- (h) Draw or accept bills payable otherwise than on demand :
- (i) Grant accommodation to the State, State undertakings, or public authorities, directly or indirectly, by way of discounts, loans, or advances exceeding three months' revenue of such authorities.

35. In the event of any claim of the bank being endangered, the bank may secure itself on real property of the debtor and may acquire such property, provided that it is resold at the first opportune moment.

36. The bank shall at all times make public the minimum rate at which it is prepared to discount or rediscount bills.

(b) *Relations with the State.*

37. The bank shall manage, without remuneration, the receipts and disbursements of the State. All State receipts shall be paid into the bank and disbursed under competent authority in writing directed to the bank. For this purpose the bank shall open current accounts for the Treasury.

38. All accounts of the State shall be kept at the bank, including the accounts of the Post Office Savings-bank and all other State undertakings.

39. No interest shall be paid by the bank on such accounts, except that the bank may pay on Government funds held abroad interest at a rate lower by not less than  $\frac{1}{2}$  per cent. per annum than the average rate earned by the bank on all short-term funds held abroad.

40. The Government shall entrust the bank with all their money, remittance, exchange, and banking transactions in New Zealand and elsewhere.

41. The bank shall, if so requested by the Treasury, manage the State debt and act as the agent of the Treasury in paying all dividends, interest, allocations to sinking funds, or repayments of maturing securities.

42. The bank shall be exempt from all State taxes except land and income tax and the special tax provided for in Article 49 of these statutes.

43. During the period of the privilege granted to the bank under Article 44 the New Zealand Government undertakes not to issue or reissue money of any kind whatever, other than subsidiary coins of denominations not higher than 5s., and these only to the bank and at its request.

(c) *Note-issue.*

44. The bank shall have the sole right of issuing notes in New Zealand for a period of twenty-five years from the date prescribed by the law of [Date]; but the privilege may be revoked at any time if the bank fails to ensure that the value of its notes remains stable.

45. A tender of a note of the bank expressed to be payable on demand shall be a legal tender to the amount expressed in such note, so long as the bank shall continue to pay its notes in the manner prescribed in Article 46.

46. On presentation at the Head Office of the bank in Wellington the bank shall be obliged to give in exchange for its notes sterling for immediate delivery in London.

The bank shall also be obliged to deliver its notes on demand in Wellington in exchange for sterling for immediate delivery in London tendered to it.

The obligation of the bank to convert its notes applies to any amount not less than £5,000.

When the bank gives sterling in exchange for its notes, or *vice versa*, the rate at which such exchange is effected shall not at any time vary from parity with sterling by more than 30s. either way.

The provisions of this article shall not come into operation until a date to be fixed, at the request of the bank, by Order in Council and published in the *Gazette*.

47. The bank shall maintain a minimum reserve of not less than 30 per cent. of the amount of its notes in circulation and other demand liabilities.

48. The term "reserve" in the preceding Article shall include only—

- (a) Gold coin and bullion in the unrestricted ownership of the bank :
- (b) Deposits at the Bank of England :
- (c) British Treasury bills maturing within three months :
- (d) Bills of exchange payable in London bearing two good signatures, maturing within three months :
- (e) Net foreign gold exchange in the unrestricted ownership of the bank, provided that it be on a country the currency of which by law and in practice is convertible on demand at a fixed price into exportable gold.



For the purpose of this Article, and subject always to the preceding paragraph (e), the term "net foreign gold exchange" shall be taken to mean—

- (1) Foreign balances standing to the credit of the bank at the Central Bank of the country of origin of the currency in question :
- (2) Bills of exchange payable in a foreign gold currency (as defined above) maturing within three months and bearing at least two good signatures :

Less any liabilities in foreign exchange.

49. At the request of the bank, the Government shall authorize the suspension for a period not exceeding thirty days, and from time to time the renewal of such suspension for periods not exceeding fifteen days, of the reserve requirements specified in Article 47 : Provided that upon the amounts by which the reserve for notes and demand liabilities of the bank falls below the requirements of Article 47 the bank shall pay a graduated tax to the Treasury at the following rates—viz., 1 per cent. per annum on the deficiency when the reserve against notes and sight liabilities is less than 30 per cent. but not less than 25 per cent., and, in addition,  $1\frac{1}{2}$  per cent. per annum upon each further  $2\frac{1}{2}$  per cent. or part thereof by which the reserve falls below 25 per cent.

50. Whenever the reserve falls below the 30 per cent. referred to in Article 47 the bank shall immediately add to its minimum current discount rate a percentage at least equal to the percentage of tax payable in accordance with the preceding Article.

#### CHAPTER VI.—ACCOUNTS, PROFITS, AUDITS, AND RETURNS.

51. After making provision for bad and doubtful debts, depreciation in assets, superannuation of staff, and all such items as are usually provided for by bankers, and after payment out of net profits of a cumulative dividend of 6 per cent. per annum on the paid-up capital, one-half of the surplus shall be allocated to the General Reserve Fund so long as such Fund is less than the paid-up capital of the bank, and the remaining one-half shall be paid to the Government. Thereafter one-tenth of the surplus shall be allocated to the General Reserve Fund until it equals twice the paid-up capital. The remaining nine-tenths shall be paid to the Government. Thereafter the entire surplus shall be paid to the Treasury.

52. The financial year of the bank ends on the 31st March.

53. The bank shall make up and transmit to the Treasury a statement of its assets and liabilities as at the close of business on every Thursday in the month. This statement shall be arranged in the form set out in the blank schedule attached to these statutes, and the Treasury shall cause a copy of such statement to be published in the next succeeding issue of the *Gazette*.

54. The bank shall also, within three months from the close of its financial year, transmit to the Treasury a copy of its annual accounts, signed by the Governor, Deputy Governor, and Chief Accountant of the bank, and certified by the auditors ; and the Treasury shall cause a copy to be laid before Parliament and to be published in the *Gazette*.

55. The bank shall also, within sixty days after the close of its financial year, transmit to the Treasury a list giving the names and addresses of stockholders and the amount of stock held by each.

56. The bank shall appoint a qualified firm of independent auditors to audit the accounts of the bank. The first auditor shall be appointed by the Treasury, and shall hold office until the first ordinary general meeting. Thereafter the auditor shall be appointed annually by the shareholders at the General meeting.

No Director or other officer of the bank shall during his tenure of office be eligible for appointment as an auditor.

#### CHAPTER VII.—LIQUIDATION.

57. Subject to the provisions of Article 59, the bank shall go into compulsory liquidation if—

- (1) The note-issue privilege is revoked under the provisions of Article 44 ;
- (2) The bank has suspended payment of any of its liabilities without being able to give as a cause *force majeure* ;
- (3) The bank has lost more than half of its paid-up capital.

58. Subject to the provisions of Article 59, the bank may be wound up on the resolution of a two-thirds majority of a specially convened general meeting at which at least half of the subscribed capital is represented.

59. Confirmation by an Act of Parliament is required if the bank is liquidated or wound up before the expiration of its note-issue privilege.

60. In the event of liquidation or winding-up, the assets and liabilities of the bank shall be realized by three persons, one of whom shall be appointed by the Government and one by the Board of Directors ; the third shall be a person agreed upon by the Government and the Board of Directors, or, failing agreement, appointed by the Governor-General in Council.

61. If as the result of such realization the assets of the bank exceed its liabilities (other than any liability to shareholders in respect of their holdings), any excess assets shall be divided, as to one-third to the shareholders and, as to two-thirds, to the Government.



## RESERVE BANK OF NEW ZEALAND.

<i>Assets.</i>	£	<i>Liabilities.</i>	£
1. Gold coin or bullion .. ..	.. ..	9. Paid-up capital .. ..	.. ..
2. Foreign exchange .. ..	.. ..	10. General Reserve Fund .. ..	.. ..
3. Subsidiary coin .. ..	.. ..	11. Bank notes .. ..	.. ..
4. Discounts—		12. Demand liabilities—	
(a) Commercial and agricultural bills .. ..	.. ..	(a) State .. ..	.. ..
(b) Treasury bills, &c. .. ..	.. ..	(b) Banks .. ..	.. ..
5. Advances—		(c) Other .. ..	.. ..
(a) To the State or State undertakings .. ..	.. ..	13. Time deposits .. ..	.. ..
(b) To other public authorities .. ..	.. ..	14. Foreign exchange liabilities .. ..	.. ..
(c) Other .. ..	.. ..	15. Other liabilities .. ..	.. ..
6. Investments .. ..	.. ..		
7. Bank buildings .. ..	.. ..		
8. Other assets .. ..	.. ..		
Total .. ..	..£	Total .. ..	..£

*Proportion of Reserve to Notes and other Demand Liabilities.*

	£
Gold .. ..	.. ..
Foreign exchange (No. 2, less No. 14) .. ..	.. ..
Reserve (a) .. ..	..£

Proportion of (a) to notes and demand liabilities (11 and 12) = %

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