CHAPTER IV

THE DUTIES OF A SECRETARY*

HORACE COLE, F.C.I.S.


The qualifications of an ideal Secretary are far-reaching. A great deal, of course, will depend on the responsibility attaching to the position he holds. A business of modest dimensions does not make the same demand on the intelligence, the personal qualifications, the business knowledge, the familiarity with technical subjects, which is essential in the secretary of a large limited liability company. In extensive concerns, the secretary’s duties are extremely varied and extend over a great many subjects.

A secretary, in the course of his work, comes into touch with all kinds of people and he has to exercise much tact and good temper, judgment and discretion of no ordinary kind; he must be exact and reliable, clear-headed and methodical.

The Custody of Documents

The unmethodical person will never make a good secretary; the very nature of his work demands that he should be able to lay his hands on all kinds of documents at a moment’s notice. These documents, of which he has the custody, may be agreements, contracts, insurance policies, statements, statistical returns and summaries, legal documents, leases, official correspondence, accounts and numerous other things to which constant reference is necessary by various people. If there is delay and flurry before access can be had to such information, ill-temper and confusion inevitably arise.

Personal Memoranda

A secretary must be methodical also in keeping his own personal memoranda; he must have records that will automatically keep him informed when agreements expire, or need renewing, when insurance policies expire or premiums fall due, and so with all similar periodical renewals or payments; the omission to provide for such things punctually will frequently lead to serious results.

He will provide himself with separate portfolios to keep together all documents relating to distinct subjects for handy reference, and so prevent papers going astray. It is essential to file and docket all papers relating to the same subject in this or a similar way.

He will also keep some form of diary that will automatically bring before his notice all matters that require attention on given dates. Too much attention cannot be given to proper methods in things of this kind, as a multitude of details claim a secretary’s attention, the essence of many of them being prompt attention. They may embrace items for the

* At the date of writing, December 1928, the Companies Act, 1928, has been passed, but the provisions of this Act, with the exception of Section 92 (offer of shares for sale from house to house) will not come into operation until a new Consolidating Companies Act has been passed. When the provisions of this new Act become operative the consequential alterations will be made in the Article “THE DUTIES OF A SECRETARY.”
board meetings, the due dates of accounts and bills of exchange, of insurance premiums, expiring agreements, and so on.

There are often agreements with managers and heads of departments containing a clause limiting their powers of action, especially as regards incurring expense beyond a figure named, without express authority. It may not be easy for a secretary to see that such authority is not exceeded, but he must keep his weather eye open to all such things.

An Official Capacity

The secretary is the official representative of the business, or company, in many ways, and the custodian of confidential documents and information. He is the person served with legal notices and official communications, all of which want prompt and proper handling. He has to deal with auditors, with the bank, with income tax assessors, with landlords, with solicitors, with managers, employees and so forth.

In many instances, also, he is responsible for the organisation and work of the counting house staff. Amongst the fundamental requirements of a secretary is a proficient knowledge of book-keeping, accountancy and finance. He should also possess a knowledge of company law and mercantile law.

Chartered Institute of Secretaries

It is very desirable that every secretary holding a responsible position with a large concern should have the qualifications and the knowledge necessary to pass the final examination of such a body as, say, the Chartered Institute of Secretaries.

The Chartered Institute of Secretaries was founded in 1891, and it is charged by its Royal Charter with the duty of improving the professional equipment of people engaged in secretarial occupations, for which purpose it has devised very practical examination tests which are held half-yearly at various centres throughout the kingdom.

The examinations of the Institute are the Preliminary, in subjects of general education; the Intermediate, in professional subjects; and the Final, also in professional subjects.

The following subjects are compulsory:—

1. Commercial Correspondence; 2. Secretarial Practice; 3. Commercial Arithmetic; 4. Book-keeping and Accounts, and the preparation of statements for Income Tax Assessment; 5. Mercantile Law; 6. Law and conduct of, and procedure at, Meetings; 7. One of the following subjects: The Law relating to Companies, to Real and Personal Property, to Railways, to Shipping, to Gas, to Water or Electricity Supply or other similar undertakings, to Insurance, to Local Government and Municipalities, to Education, to Lunacy, or other Branch of Law approved by the Council; 8. One of the following subjects: Economics, or French, Spanish, Italian, German, Russian or other foreign language approved by the Council, including an oral examination.

The Institute holds conferences and other meetings from time to time for the discussion of professional affairs and to ascertain and notify the law and practice relating to all things connected with the Secretarial profession.

Legal Matters

In addition to a knowledge of the Companies Acts, the secretary should also make himself acquainted with the Registration of Business Names Act, 1910; the Particulars of Directors Act, 1917; the National Health Insurance Acts and the National Unemployment Insurance Acts, also the Stamp Act, 1891, the Income Tax Consolidation Act, 1918, and the various Finance Acts since that date.
THE DUTIES OF A SECRETARY

THE DUTIES OF COMPANY SECRETARIES

As most large industrial and commercial businesses are now limited companies, we shall deal with the duties of a secretary of limited companies in more detail. A secretary must make himself familiar with the statutes relating to limited liability companies; for he holds a legal as well as an official position.

Although a secretary must carry out the instructions of the board of directors, he must be careful not to commit a breach of the law. There are many responsibilities placed upon him by the Companies Acts. He is personally liable for many fines and penalties for non-compliance with the requirements of the statutes.

Under Section 281 of the Companies (Consolidation) Act, 1908, he is, for example, made liable should his name appear on the face or any part of a prospectus inviting subscriptions for shares from the public, or on a report, balance sheet, or certificate containing a false statement. If he knows it to be false he is liable on conviction in indictment to imprisonment for a term not exceeding two years, and on summary conviction to a term not exceeding four months, or to a fine not exceeding £100.

He will become personally liable if he omits the word “Limited” from the name of the company upon any bill of exchange, promissory note, cheque or order for money or goods, unless the company pays the amount.

DUTIES UNDER THE COMPANIES ACTS

If the secretary is appointed to a company in the course of formation, it is his duty to see that all documents are registered and filed in compliance with the legal requirements.

When registration of a company has been effected, and the certificate of incorporation received from the Registrar of Joint Stock Companies at Somerset House, his own appoint-
THE DUTIES OF A SECRETARY

notice, as no board has the right to exclude any one of their number. It is not necessary to state on the notice all the business that may come before the meeting, but when any special business is to be considered an intimation of that business should be given. A specimen of the notice that can be employed is as follows:—

THE M.N.O. COMPANY, LTD.

A Meeting of the Directors of the Company will be held at 27 Park Street, Strand, W.C., on the 15th March, 192—, at 12:00 noon. 

JOHN JONES,
Secretary.

AGENDA

1. Minutes of last Meeting to be read and approved.
2. Cash Account, Bankers' Statement and/or Pass Book.
3. Accounts for payment to be delegated to Committee of Directors.
4. Transfer Deeds to be approved
5. Share Certificates to be sealed.
6. Appointment of Manager (or other officials) to be approved.
9. Lease of Premises to be considered.
10. Any other business that may arise.

Minutes of Meetings

All limited companies are required to keep minutes by Sec. 71 of the Companies (Consolidation) Act, 1908, which provides that every company shall record minutes of all proceedings of general meetings and of its directors or managers to be entered in books kept for that purpose.

The same section provides that minutes, when signed by the chairman of the meeting at which they were passed, or by the chairman of the next succeeding meeting, shall be evidence of the proceedings.

Until the contrary is proved, every general meeting of the company, or meeting of directors or managers, in respect of the proceedings whereof minutes have been so made, shall be deemed to have been duly held and convened, and all proceedings had thereat to have been duly had and all appointments of directors, managers or liquidators shall be deemed to be valid.

The minutes are written up by the secretary from the agenda book, which contains the notes of the chairman, or from notes taken by the secretary. The agenda book is ruled so that the opposite page in which the items are entered is left blank for the chairman to enter his memoranda. The minutes should follow the order in which the business was taken at the meeting. The secretary must make a record of all directors attending. The subject matter of such minutes should be noted in the margin (and indexed) and the exact wording of any resolution passed should be recorded.

There is an art even in writing minutes. They should be concise, clearly expressed and definite in wording and meaning. Disputes and misunderstanding are not uncommon by reason of the unfortunate wording of decisions arrived at; the secretary should be perfectly clear as to the exact intention of a decision.

The minutes being approved, the chairman signs them, adding the date of signature. The minutes will state "that the minutes of the preceding meeting were read and signed as correct." After the minutes are signed no secretary must ever alter them; any alteration of a resolution or decision must be the subject of another minute of a meeting where such alteration of a decision was arrived at.

No discussion on the subject matter of the minutes of a previous meeting is in order except on the point of their accuracy as to what took place. Any alteration made should be initialled by the chairman. The subject matter, of course, can be raised afresh as part of the business of another meeting.
"THE COMPANIES ACTS, 1908 TO 1917."

**FORM E**

As required by Part II of The Companies (Consolidation) Act, 1908 (Section 26),
and The Companies (Particulars as to Directors) Act, 1917

Summary of Share Capital and Shares

of

**National Paper Mills Limited,**

made up to the **Sixth day of September 1927.**

(Being the Fourteenth Day after the date of the First Ordinary General Meeting in 1927.)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Share Capital, £ 4,000,000 divided into 200,000 Ordinary Shares of £1 each</td>
<td>200,000 Ordinary Shares</td>
</tr>
<tr>
<td>Total Number of Shares taken up* to the Sixth day of September 1927</td>
<td>150,000 Ordinary Shares</td>
</tr>
<tr>
<td>Number of Shares issued subject to payment wholly in Cash</td>
<td>200,000 Preference Shares</td>
</tr>
<tr>
<td>Number of Shares issued as partly paid up otherwise than in Cash</td>
<td>50,000 Preference Shares</td>
</tr>
<tr>
<td>Number of Shares issued as partly paid up to the extent of Nil</td>
<td></td>
</tr>
<tr>
<td>otherwise than in Cash</td>
<td>150 Ordinary Shares</td>
</tr>
<tr>
<td>There has been called up on each of 150 Ordinary Shares</td>
<td>£1</td>
</tr>
<tr>
<td>150 Preference Shares</td>
<td>£1</td>
</tr>
<tr>
<td>Total Amount of Calls received, including Payment on Application and Allotment</td>
<td>£50,000</td>
</tr>
<tr>
<td>Total Amount (if any) agreed to be considered as paid on 50,000 Preference Shares which have been issued as partly paid up otherwise than in Cash</td>
<td>£50,000</td>
</tr>
<tr>
<td>Total Amount (if any) agreed to be considered as paid on Shares which have been issued as partly paid up to the extent of per Share otherwise than in Cash</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Amount of Calls unpaid</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Amount (if any) of sums paid by way of Commission in respect of Shares or Debentures or allowed by way of Discount since the date of last Summary</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Amount (if any) paid on Shares forfeited</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Amount of Shares and Stock for which Share Warrants to Bearer are outstanding</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Stock Nil</td>
</tr>
<tr>
<td>Total Amount of Share Warrants to Bearer issued and surrendered</td>
<td>£Nil</td>
</tr>
<tr>
<td>respectively since date of last Summary</td>
<td>£Nil</td>
</tr>
<tr>
<td></td>
<td>Surrendered £Nil</td>
</tr>
<tr>
<td>Number of Shares or Amount of Stock comprised in each Share Warrant</td>
<td>Number of Shares</td>
</tr>
<tr>
<td>to Bearer</td>
<td>Amount of Stock £</td>
</tr>
<tr>
<td>Total Amount of Debt due from the Company in respect of all Mortgages and Charges which are required (or, in the case of a Company registered in Scotland, which, if the Company has been registered in England, would be required) to be registered with the Registrar of Companies, or which would require registration if created after the First day of July, 1908</td>
<td>£Nil</td>
</tr>
</tbody>
</table>

**NOTE.** Banking Companies must add a list of all their Places of Business.

* Where there are Shares of different kinds or amounts (e.g. Preference and Ordinary or £10 and £2), state the numbers in the same row.

* Share

* Include what has been received on forfeiture as well as on existing Shares

* State the Aggregate Number of Shares forfeited (if any)

* The Return must be signed at the End, by the Manager or Secretary of the Company

Presented for filing by

John G. Birch, Secretary,

Giving Effect to Resolutions

It is the secretary's duty to see that the resolutions of the board of directors are given effect to, or, as the case may be, conveyed by him officially to the persons whom the resolutions may concern, and whose duty it may be to give effect to them.

It falls upon the secretary to carry out the instructions of the directors to the best of his ability. In doing so he may have to draft letters, agreements and other documents, or see that they are done and completed; or he may have to conduct certain specific negotiations as the representative of the directors.

That the secretary of a company should be competent is important. A company cannot repudiate any act of his which comes within the limits of the duties entrusted to him; this does not apply, however, to any irregular act he may commit outside the scope of his duty.

Intelligent Anticipation

Whenever there are subjects on the agenda on which detailed information may be of service to the directors, the efficient secretary will have anticipated the requirements by informing himself of whatever precise knowledge he can acquire.

There are many occasions on which the secretary, by supplying information on the spot, can facilitate the consideration of points under discussion, and by doing so save much time at board meetings. He must keep trace of all subjects discussed at board meetings which are not finally disposed of but adjourned for further consideration.

Indeed, it is by arming himself with much varied and special knowledge that a competent secretary distinguishes himself and gains the confidence of the board. Where he can speak with authority and knowledge, he will frequently find himself consulted on many questions. He will be given considerable freedom of action in details; so valuable is the knowledge of a varied kind that a secretary may acquire, and the business judgment he may develop, that he may ultimately be made a director himself.

No body of directors can be experts on everything; as often as not delay in coming to decisions, or coming to wrong decisions, is due to a lack of exact knowledge, for without full and exact knowledge no one can offer a sound judgment on any problem.

There is frequently at least something on the agenda of directors' meetings about which a question will be put to the secretary. For example, transfers of shares will come before the board to be passed. A director may want to know the average price at which the company's shares are changing hands, or the quoted price at the moment.

This may lead to supplementary questions. What price were they a month ago—six months, or twelve months previously? The discussion may extend to many things somewhat remote from the business under consideration. Although the secretary may realise the desirability of expediting meetings, and keeping discussion strictly to the thing in hand, he can render good service by keeping himself well informed on everything that is likely to come within the sphere of directors' meetings.

He will also probably be asked for information on financial points, and for estimates of cash requirements over a period. It falls on him, too, to recommend placing money on deposit when there is a surplus on current accounts; the question of investments will also arise from time to time.

All of which goes to show how desirable it is for the secretary to be thoroughly conversant with all questions of this kind, and all other matters that may come before him in his official capacity.

What applies to management and heads of departments applies to a
secretary; as always, it is not the perfecting oneself in the mechanism of business and routine that counts, so much as the constant exercise of natural intelligence and the play of a keen mind.

We have said enough to indicate the general qualities desirable in a wide-awake secretary, and may now turn to the consideration of some of his more specific routine duties.

Office Organisation

The subject of the organisation of accounts is dealt with in another chapter. This generally comes within the province of a secretary, except where the secretary’s department is self-contained, and distinct from the general counting house and accountability department.

If the accountant is on the staff of the company, it will be his duty to supervise and control the work of the counting house. The division, and sub-division, may go even further in very extensive concerns, but it will be more convenient here, for the purposes of illustration, not to over-exaggerate departments. Adaptation is not difficult where principles are well understood.

The competent secretary will satisfy himself that the best book-keeping methods and the best system of organising the work of the clerical staff are in operation. Where the business is a large manufacturing and trading concern as well, the work will be more than one man can tackle. But, as we have said, adaptation and division of departments are not difficult.

If the secretary is taking a new post, the first thing he would do would be to thoroughly investigate the methods and organisation of the counting house. He would see that each clerk had his own definite responsibilities; he would see that all ledgers were arranged on the self-balancing principle; he would make certain that there was a clear line of demarcation between the cashier’s particular books and the ledgers; no cashier or petty cashier in charge of a cash book should have control over any of the ledgers.

He would satisfy himself that the balances of the bank pass book and the cash book were properly verified. He would see that proper steps have been taken for responsible persons to pass all invoices, and statements for payments of every kind. This is generally too big a job for the principals or general managers to concern themselves with, and it must be left to some other official.

The secretary will cause to be furnished to him at stated periods a list of all overdue accounts, with reports thereon. He will also satisfy himself that the system of paying wages and salaries is efficient and thoroughly reliable; in particular, he will see that there is no loophole for collusion between time-keepers and the pay clerk.

This is only a summary of the multiplicity of things a competent secretary will consider himself responsible for; these last-mentioned subjects and other matters are dealt with in more detail in another chapter. Wherever possible, a system of “internal check” to provide against dishonesty, slackness, error and disorder should be provided for.

In the case of limited companies regulations are laid down by the directors for the payment of accounts and the signing of cheques, the discounting of bills and dealings with the bank; some of the systems adopted are explained in another chapter.

Signing Documents

Amongst the duties of a Secretary is the signing of all official documents “for and on behalf of the Company”; the absence of these, or some other words to the same effect, may render the signatories to a cheque personally liable for the amount named.

Usually cheques, bills of exchange, etc., are signed by two directors
THE PROTOGRAPH CHEQUE WRITER

Imprints the actual amount as shown below.

ONLY FIFTEEN POUNDS FIFTEEN SHILLINGS

THE PROTOGRAPH

This machine, which, like the one above, is supplied by Messrs. Halsby & Co., Ltd., prevents any alteration to the amount of a cheque, by imprinting a "hunting line" thus:

NOT OVER TWELVE POUNDS
(but not always) and the secretary. The bank will be in possession of the signatures of all the directors having authority to sign cheques. It is important that the secretary should officially inform the bank of all regulations and changes of regulations made by the directors for signing cheques, and of the death or the retirement of any director.

Every secretary should make himself thoroughly familiar with such points in banking law and practice as affect industrial and commercial business.

The secretary may have delegated to him authority to execute and sign contracts and agreements on behalf of the company. In special cases of this kind, the secretary must see that authority is properly conferred upon him by express resolution of the board. Any contract which, if made between private persons, would be by law required to be in writing, and according to English law to be under seal, is binding only if executed under the common seal of the company.

The regulations with regard to the use of the seal of the company and the signing of documents are explained elsewhere.

The secretary of a company is under obligation to see that no balance sheet is issued, circulated, or published, without being signed by two directors on behalf of the board, with the auditor's report attached thereto, or containing such report as is required by statute.

Other duties which devolve upon the secretary of a limited company in connection with the annual accounts and general meetings of the company include the following:—

**General Meetings**

The secretary is responsible for dispatching the proper notices of all shareholders' meetings to those shareholders entitled to receive them.

The address of the registered office of the company must be given and the word "Limited" must appear in all notices sent out. He must not send out any notice without being authorised by the board, and it is therefore usual to affix the words "By Order of the Board" at the end of the notice and before the signature of the secretary.

He must take care that the proper notice of a meeting is given, and that the notices are sent out in good time. Proceedings at a shareholders' meeting not properly convened are invalid. The Articles of the Company usually require seven days' notice at least. This means seven clear days; neither the day of the service nor the day of the meeting must be counted in the seven days. In some cases the articles, however, provide that the day of receipt of notice shall be counted, but not the day of the meeting. This means that it would be necessary to post the notices eight days before the day of the meeting.

The notice of a meeting should state the place, day and hour of meeting; and the general nature of special business must be given.

A general meeting of every company must be held at the least once in every calendar year, and not more than fifteen months after the holding of the last general meeting. In default of calling such meeting, every director, manager or secretary, knowingly a party to the default, is liable to a fine not exceeding fifty pounds.

**Proceedings at Shareholders' Meetings**

The proceedings at the annual meeting of a company are usually of a recognised formal nature. The articles of a company usually indicate what shall be deemed "special" business; for such "special" business an extraordinary general meeting is called, and therefore "special" business is not transacted at the ordinary general meeting.

Here the business usually dealt with is the consideration of the accounts, the directors' and auditors' reports, the sanctioning of dividends, the election of directors, auditors and
other officers, and any other "ordinary" business. Other particulars of proceedings at shareholders' meetings are given in the chapter on Limited Liability Companies in Vol. I.

A meeting has no power to pass any resolution outside the scope of the notice. If the articles allow, two meetings may be convened by one and the same notice, but in the absence of such a provision two meetings cannot be convened by the same notice, if the second meeting is to be held contingently on the resolution being passed by the requisite majority at the first meeting.

If a second meeting is to be held, care must be taken that an interval of not less than fourteen days, nor more than one month, elapses from the date of the first meeting.

If proxies are sent in by shareholders for voting purposes, the secretary will examine them. He will also take steps to see that those attending the meeting are entitled to attend.

A copy of the annual report sent to the shareholders, with an accompanying statement of accounts, has to be laid on the table at the annual meeting. The report issued to the shareholders deals with the results of the year's trading, and also contains whatever other information the directors may think proper to give to the shareholders.

It also contains recommendations as to payment of dividends and the disposal of the profits. The report is sometimes signed by the chairman, but more usually by the secretary. The balance sheet is generally signed by two directors and the secretary, and the auditors' report must be attached to it.

Extraordinary General Meetings

The secretary who has made a study of the Articles of his company, and who is thoroughly well acquainted with the Companies Acts, will know in what circumstances an extraordinary general meeting of share-

holders is necessary, and the nature of the business that requires to be transacted at such meetings.

It is the business of the directors to call extraordinary general meetings when they think fit. The secretary, however, will know that the directors are under obligation to convene such a meeting on the requisition of the holders of not less than one-tenth of the issued share capital of the company upon which all calls have been paid.

It is the duty of the Secretary to file with the Registrar of Companies printed copies of all extraordinary resolutions within fifteen days after they have been passed by the Company. Where the Articles of the Company have been registered a copy of every special resolution must be annexed to every copy of the Articles issued after the passing of the resolution.

Share Register

There are certain books which every company is compelled to keep by the provisions of the Companies Act. In large companies they are under an official called the Registrar. These books and their detailed requirements are explained in the chapter on Limited Liability Companies.

Amongst them is the Share Register, which contains particulars of the individual shareholders and their holdings. Great care must be taken by the secretary to see that this register complies with all the requirements. There is a penalty of £5 per day for neglect in keeping a proper register.

The register should be in charge of a capable person, as any error, or confusion, will result in the waste of much time when lists are being prepared for the payment of dividends. No erasures should be permitted in this book.

An index to the share register, although not compulsory by the Act, is very necessary. Companies having
### Register of Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>British Location</th>
<th>British Address</th>
<th>Other British Occupations</th>
<th>Date of Birth</th>
<th>British Name</th>
<th>British Surname</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilson, Charles Seymour</td>
<td></td>
<td>6 Mount Street,</td>
<td>Cotton Manufacturer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anderson, Samuel</td>
<td></td>
<td>19 Grafton Road,</td>
<td>Accountant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tago, Henry Woodman</td>
<td></td>
<td>Kensington, London W.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thomson, Frank Sayers</td>
<td></td>
<td>The Lamps, West End,</td>
<td></td>
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</tr>
<tr>
<td>Allwin, John</td>
<td></td>
<td>Highgate, London N.</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>7 West Parade,</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Brighton, Sussex</td>
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<tr>
<td></td>
<td></td>
<td>The Grey House</td>
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<tr>
<td></td>
<td></td>
<td>Windlesham, Kent</td>
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</table>
a big register frequently record various notes relating to the shareholders’ accounts in such index, and thus minimise the necessity for continued reference to the register. The index should be kept up to date, the names of all closed accounts being struck out and new accounts entered. The index should be used when envelopes are required to be addressed for notices convening meetings, reports, balance sheets, etc.

Register of Directors

Under Sec. 75 of the Companies Act, a company must keep a register of directors or managers at its registered office. If default is made in complying with this section, the company shall be liable to a fine not exceeding £5 for every day during which the default continues, and every director and manager who knowingly permits the default is liable to a like penalty.

The particulars required to be inserted by Section 75 of the Companies Act, 1908, also Section 1 of the Companies (Particulars of Directors) Act, 1917, and Section 3 of the Registration of Business Names Act, 1916, are:—The present Christian name and surname, any former Christian name or surname, the nationality, the nationality of origin if other than present nationality, the usual residence and other business occupation, if any, of each director.

A copy must be sent to the Registrar of Companies, and it is necessary to notify the Registrar from time to time of any change among its directors or managers. When notice of change is sent to the Registrar a complete list of the existing directors should be given. The offices of the Registrar are at Somerset House, Strand, London, W.C.

Share Transfers

The shares of a company are transferable by one person to another in accordance with the regulations of the Articles of the company. The transfer of shares is effected by means of a transfer deed. After it has been signed by the seller and purchaser of the shares, it should be sent to the secretary of the company at its registered office.

The name of a shareholder can only be removed from the share register if he transfers, forfeits or surrenders his shares. The transferor remains a shareholder until the name of the transferee is entered in the share register.

As regards shares not fully paid, there are usually restrictions on their transfer, but the regulations of the Stock Exchange require that no restrictions shall be placed on transferring fully-paid shares, otherwise an official quotation will not be granted.

Private companies frequently impose restrictions on transfers requiring the holder to offer the shares to the other members, and in the event of a dispute the matter is referred to arbitration.

The handling of all transfers requires the greatest care and circumspection on the part of the secretarial staff. The usual form of transfer, and a table of stamp duties, are given on another page, as well as further details of the requirements of the Act as it affects the transfer and transmission of shares in a company.

The secretary, or a qualified subordinate appointed for the purpose, will carefully examine every transfer sent in to the office. He will make sure that it is properly filled up, that the names, addresses and descriptions of both parties are correctly stated. Every transfer must be correctly signed by the parties thereto, witnessed and properly stamped with impressed stamps. The secretary is liable under the Stamp Act to a penalty of £10 for every transfer improperly stamped. As the stamp duty is payable on the consideration money, the secretary will satisfy himself that the consideration money named is in order should it happen
to be appreciably below the market value of the shares.

In the case of a transfer of the shares taking place where the consideration is nominal, the stamp duty is 10s., but the secretary must use great care to see that the transaction falls within the proper description. In the event of any doubt, the secretary should require an explanation, and if he is still not satisfied he should require the Board of Inland Revenue's adjudication stamp to be marked on the transfer.

The signature of the registered holder transferring the shares should be carefully scrutinised and compared with that in the company’s possession.

**Surrender of Share Certificates**

The transfer being in order, a transfer receipt should be sent to the person who has lodged it. The certificate representing the shares must be surrendered and should be cancelled immediately, the name of the transferee and number of shares transferred being entered on the back. Most certificates are now specially ruled for this purpose.

A notification should then be sent to the transferor that a transfer has been lodged with the company and that it will be assumed that the transfer is in order unless the company is informed to the contrary.

In the case of joint holders, the notice should be sent to all holders. A plain envelope should be used and no intimation should be given that it is a communication from the company.

The transfer should then be numbered and entered in the transfer register.

**Issuing New Certificates**

The next procedure is to prepare the new certificates. When these are made out they should be carefully checked in every detail, and the secretary then brings them before the Directors at the next Board Meeting, together with the transfers, where they are approved.

The new certificates are sealed and usually two Directors and the Secretary sign them.

When the transfers have been passed by the Board they are posted from the transfer register to the share register. The new certificates are sent to the transferees or their brokers.

The transfers are afterwards filed away in batches, or pasted in a guard book, and the cancelled certificates should be kept carefully, as they may be required for further reference.

**A Balance Certificate**

It may be that share certificates will be lodged, of which only a portion of the shares are to be transferred. In such cases, it is usual for the seller, or his broker, to deposit the certificate at the Company’s Office, and for the Secretary to certify on the transfer the fact that the certificate has been lodged.

This enables the seller to obtain the proceeds of the sale. A rubber stamp should be used to certify on transfers, the Secretary’s signature being added. The following form can be adopted:

Certificate for the within mentioned shares has been lodged at the Company’s Offices.

WM. SMITH,
Secretary.

7/1/26.

A balance receipt, or “balance ticket,” is then prepared for the balance of the shares unsold, which is given up when the new certificate for the remaining shares is ready.

A record of certified transfers should always be kept; a convenient method is to keep a Balance Certificate Book in which there will be entered the name of the transferor, the total number of shares covered by the certificate, distinctive numbers, number of shares certified, and distinctive numbers and the name of the broker lodging the certificate. An illustration appears on page 80.
No. 52
Date 3rd April, 1925
Certificate lodged, No. 4312 Ordinary Shares 100
Preference Shares in name of:

John Jones

Distinctive Nos.

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<th>From</th>
<th>To</th>
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<tr>
<td>5,001</td>
<td>5,100</td>
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No. of shares certified 50
Distinctive Nos.

<table>
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<tr>
<th>From</th>
<th>To</th>
</tr>
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<tbody>
<tr>
<td>5,001</td>
<td>5,050</td>
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</table>

Lodged by:—

Joseph Smith & Son
13 Bishop St.
Liverpool

THE BLACKPOOL RUBBER CO., LTD.
Moorgate
Liverpool.

Messrs. Joseph Smith & Son

Certificate for 1/10 Ordinary Shares in the name of John Jones has been lodged at the Company's Office to meet transfer for 50 Shares.

A Balance of 50 Shares numbered as per margin is held to your order.

New Certificate will be exchanged for this receipt on written request.

WILLIAM JOHNSON
Secretary.

Note.—No transfer of the balance shares above referred to will be certified without the production of this receipt.
### BALANCE CERTIFICATE BOOK

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<th></th>
</tr>
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<tbody>
<tr>
<td>4372</td>
<td>3/4/25</td>
<td>John Jones</td>
<td>100</td>
<td>5,001</td>
<td>5,100</td>
<td>50</td>
<td>5,001</td>
<td>5,050</td>
<td>Joseph Smith &amp; Son, 13 Bishop Street, Liverpool</td>
<td>5403</td>
<td>50</td>
<td>5,051</td>
<td>5,100</td>
<td>Joseph Smith &amp; Son, 13 Bishop Street, Liverpool</td>
</tr>
</tbody>
</table>

### DIVIDEND LIST

| Folio | Name | Address | No. of Shares | Gross Dividend | Income Tax | Net Dividend | No. of Warrant |
|-------|------|---------|---------------|----------------|------------|--------------|----------------|}

---

THE DUTIES OF A SECRETARY
The law with regard to forged transfers is explained in the chapter on Limited Liability Companies.

**Power of Attorney**

A shareholder may execute a Power of Attorney to another person to act as his delegate. The document must be in writing, under seal and the signature properly attested. Such a document presented to the Secretary for registration should be carefully perused and he should note particularly the terms of it.

An office copy should be given to the Secretary, as it is quite unreasonable to expect him to copy out all the details of the document. Objection is sometimes raised, but it should be pointed out that it is for the benefit of shareholders themselves that the company is registering the document.

**Deceased Shareholders**

In the case of a deceased shareholder, his legal representative will apply for probate of the will or Letters of Administration to the proper quarter. The course for the Secretary to adopt with regard to these documents is to make an entry in the share register, noting the date of death of the deceased member, the date when the probate or Letters of Administration were exhibited for inspection, and the names and addresses of the executor or executors, and in the case of Letters of Administration the name of the person who is administering the estate.

A rubber stamp should be used for marking all Probates or Letters of Administration, showing that they had been presented for registration by the Company. It should be in this form:

```
BLACKPOOL RUBBER CO., LTD.
Registered.
26/2/1926.

JOHN SMITH,
Secretary.
```

This stamp should be impressed upon the document, and then the Secretary should affix his signature and return it to the person who lodged it for registration.

The Secretary should be careful not to enter the representatives in the register as holders of the shares. Section 29 of the Companies Act provides that “A transfer of the share or other interest of a deceased member of a Company made by his personal representative shall, although the personal representative is not a member, be as valid as if he had been a member at the time of the execution of the instrument of transfer.”

Executors may, therefore, transfer without being first registered as members, and should they do so, the transferee will be registered in due course.

The executors may, however, make a written request that their names be placed on the share register when they become personally liable, and this may be done without executing the usual transfer. A form that may be used is as follows:

```
The Secretary,
BLACKPOOL RUBBER CO., LTD.

____________________________________________________ deceased.
____________________________________________________ Shares
numbered ______________________.
I, (or We) the undersigned,__________________________
of ______________________,
the sole Executor (or Executors) of and under the will of
____________________________________________________, deceased,
hereby request that my (or our) name(s) shall be registered in the books of the
Company as an individual (or individuals), and that the new Share Certificate representing
the above Shares may be made out in my (or our) name(s) as owner(s) thereof, and
not in my (or our) name(s) as sole Executor (or Executors) of the said ______________________

Dated this __________, day of _________ 19
Signatures _________________

Should, however, the shares pass to any other person than the executor, a formal transfer is necessary and
should be duly stamped. A specimen signature of the executor or administrator should always be obtained.

**Death of an Executor**

In the event of the death of a sole executor who has not been registered as the holder, the production of the Probate of his will by his executor entitles him to deal with the shares of the deceased holder.

The administrator of a deceased executor should not be recognised. The person entitled to the unadministered estate of the deceased shareholder must apply for Letters of Administration *de bonis non*, and the Secretary should recognise that person. Neither can the executor of an administrator, nor the administrator of an administrator, be recognised.

In the case of joint holders, or joint executors, if one dies, proof of death (that is, the death certificate) only is necessary, as the shares stand in the names of the survivor or survivors.

**Scottish and Colonial Probates**

Scottish and Irish Probates and Letters of Administration must be re-sealed in England; English or Scottish in Ireland, and English or Irish in Scotland. Also Colonial Probates or Letters of Administration must be re-sealed in this country before the representative can be recognised.

**Endorsing Certificates**

In addition to the note made in the share register (mentioned above), it is usual to endorse the share certificate belonging to the deceased holder to the effect that Probate of the will has been exhibited at the Company's offices, the date when it was exhibited, and the names of the executor or executors appointed under the will. This endorsement must be signed by the Secretary.

The holder's name must not be altered on the face of the certificate. If the executor or administrator of a deceased holder should sell part of the shares he held, the new certificate for the balance must be made out as though the deceased was still alive, but it should be endorsed in the manner already described.

**Registration Fees**

It is desirable that a Fee Book be kept in which all transfer and registration fees should be entered, the total being carried at stated periods to the General Cash Book.

The following fees are usually charged:

<table>
<thead>
<tr>
<th>For registration of Transfers</th>
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<tbody>
<tr>
<td>&quot; &quot; Probates</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; &quot; Proof of Death in joint holdings</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; &quot; Request by executors to be placed on the register</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; &quot; Proof of marriage</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; &quot; Power of Attorney</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; &quot; Change of name by Deed Poll</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; &quot; Notice in lieu of distraint</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; Lunacy Orders</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; Appointment of Trustee in Bankruptcy</td>
<td>2 6</td>
</tr>
<tr>
<td>&quot; issue of Duplicate Certificate</td>
<td>1 0</td>
</tr>
<tr>
<td>&quot; &quot; Split Certificate</td>
<td>1 0</td>
</tr>
</tbody>
</table>

**Share Certificates**

Share certificates, before they are signed and issued to shareholders, should be carefully scrutinised. This is usually done by a second party, generally the accountant, who will verify the number and accuracy of the shares. Where a Company has more than one class of share, it is desirable that the respective classes of shares for which certificates are issued should be as distinctive as possible. They may be printed in different colours, or in different styles.
Dividend Warrant

THIS PORTION MUST BE RETAINED IF IT IS DESIRED TO CLAIM
REPAYMENT OF INCOME TAX.

No. 2903

GEORGE NEWNES, Limited,
8–11, SOUTHAMPTON STREET, STRAND, LONDON, W.C.2.

FIVE PER CENT. CUMULATIVE PREFERENCE SHARES.

Half-Year's Dividend payable 1st July, 1926,

on 150 Preference Shares of £1 each ... £ 3 15

Less Income Tax at 4% in the £ ... ... ... £ 1 5

The amount deducted for Income Tax, as above, will be paid by the Company to the proper officers for the receipt of Tax. If you are not liable for Income Tax, the Inland Revenue Department will return the warrant as a voucher on your claiming repayment.

HORACE COLE, Secretary

£ 3 10

To William Hipwood Esq.
Lawson House
Farsley Road, Guiseley

GEORGE NEWNES, Limited.

DIVIDEND ON PREFERENCE SHARES.

No. 2903

To LLOYDS BANK LTD.,
With which is amalgamated the CAPITAL AND COUNTIES BANK, LTD.,
COVENT GARDEN

Pay to the Sum of Three pounds £ 3 0

Payee to sign here

Horace Cole
Secretary.

This Warrant must be presented for payment within six months.
A share certificate is *prima facie* evidence of the title to the shares named thereon of the person whose name it bears. A share certificate requires no stamp, although it is made under the seal of the Company.

**Debentures, etc.**

The Secretary’s duty with respect to procedure in connection with debentures and mortgages is of a similar nature to that of share capital. Full particulars with regard to all these matters is given in the chapter dealing with Limited Liability Companies.

**The Declaration and Payment of Dividends**

After the payment of a dividend has been authorised by a resolution of the shareholders, the necessary dividend warrants (equivalent to cheques) will be dispatched to the individual shareholders. It may be remarked that articles provide that it is not permissible for shareholders to declare a larger dividend than that recommended by the Directors.

Directors are responsible for any irregular payment of a dividend, and for the fictitious payment of a dividend with the object of enhancing the price of the Company’s shares.

It is competent for Directors, if authorised by the Articles, to declare interim dividends at their discretion where profits seem to warrant it.

Meanwhile, before the dividend is paid, the Secretary will have caused detailed dividend lists to be prepared showing the amount payable to each member, or holder of stock. The register of members is usually closed before the annual meeting for the preparation of the dividend.

The lists are generally made out on loose sheets, which will be found more convenient for the writing of the dividend warrants; these sheets are afterwards bound up. The ruling of the lists appears in the form shown on page 80.

The names and addresses, together with the shares held, must be entered from the share register, and then the amount of the dividend is calculated on each holding, the tax deducted, leaving the net amount due.

The deduction of tax from dividends is to be made at the average rate which is in force over the period for which the dividend is paid, *e.g.*, if the standard rate of tax was reduced from 5/- to 4/-, the tax deductible from a half-year's dividend which was paid on the 30th June following would be at the rate of 4/6 in the £.

Companies are now obliged, when they issue a “warrant or cheque or other order, drawn or made, or purporting to be drawn or made, after the 30th of November, 1924, in payment of any dividend or interest,” to send a statement at the same time, giving the following particulars:

1. The gross amount which, after deduction of the Income Tax appropriate thereto, corresponds to the net amount actually paid.
2. The rate and the amount of Income Tax appropriate to such gross amount.
3. The net amount actually paid.

If a Company defaults in complying with these requirements, it will be liable to a penalty of £10 for each offence.

The aggregate amount of penalties in respect of any one distribution of dividends or interest will not exceed £100.

**Dividend Warrants**

The Accountant will carefully check the lists, and after they have been agreed the dividend warrants should be written. The warrants must be stamped and numbered, and when completed should be checked by the Accountant, who passes them to the Secretary for signature if they are to be signed. It is customary for the warrants to bear a printed facsimile
signature of the Secretary, and to be initialled by the person who checks them.

A form of advice is sent to the Company's bankers giving the names, amounts and distinctive numbers of the warrants. Each list usually contains 100 or more names of holders and is signed by two Directors and Secretary.

A cheque for the total amount of the dividends should be drawn on the current banking account, transferring the amount to a "dividend account." This obviates a great number of cheques passing through the ordinary bank account and pass book, and also saves the Directors signing a multitude of warrants. The total amount having been placed to the dividend account is sufficient safeguard, and frequently the Secretary only signs the warrants.

The warrants are then posted to the holders. In large Companies it is advisable to make them up in batches and send the bundles to the Post Office for franking. Much unnecessary labour is saved if this is done.

In writing out dividend warrants the Secretary must attend to the instructions given by shareholders for the payment of their dividends. Some require them paid direct to their banking account, and others to a particular name or address. The instructions will have been noted in the share register. Obviously, the more shareholders who can be persuaded to have their dividends paid to their bank the better. When a large number of warrants are paid to a particular bank for the account of shareholders whose accounts are with that bank, it is only necessary to make out one dividend warrant for the total amount.

The upper portion of each warrant must be sent to the bank, together with a list of the various shareholders, showing at which branch their accounts are kept. The warrant for the total amount will agree with the total of this list.

In the case of joint holders, it is usual for the warrant to be made payable to the first named, unless instructions are received for payment to be made otherwise.

Lost and Unclaimed Warrants

If a warrant is lost, after having payment stopped at the bank, a duplicate can be sent on receipt of an indemnity which should be signed over a sixpenny stamp.

After the warrants have been presented to the bankers for payment they will be returned to the Company. The returned warrants should be checked with the dividend lists and a summary made of the unpaid warrants.

Unclaimed dividends will remain at the credit of an unclaimed dividends account in the ledger. After twenty years have elapsed the debt from the Company to the shareholder is statute barred.

Notifying the Stock Exchange

With regard to the declaration of dividends, an intimation should be sent to the Secretary of the Stock Exchange (Share and Loan Department) by the Secretaries of all Companies that have been granted a Stock Exchange quotation, notifying him of the declaration of the dividend; it is usual also to send a notification to the Press.

The Secretary will have some acquaintance with Stock Exchange matters and procedure. Every company that wants an official quotation for its shares must comply with certain formal requirements of the Stock Exchange Committee. It is obviously important for a large company to have its shares quoted in the official lists of the Stock Exchange; the selling and buying of the shares is greatly facilitated, and accordingly their value is enhanced, by an official quotation, although unofficial quotations are now very generally printed and published.
To obtain an official quotation, the Company must have been formed in accordance with certain rules laid down. This may provide no guarantee, of course, of the stability of the Company, but it does serve as evidence that certain required formalities have been observed.

Applications for quotations must be made to the Secretary of the Share and Loan Department of the Stock Exchange and must comply with such conditions and requirements as are laid down from time to time. The application must be made by a broker who is a member of the Stock Exchange.

**Annual List and Summary**

The various documents that have to be filed with the Registrar on the incorporation of a Company are explained in the chapter on Limited Liability Companies.

Every Secretary is required by Section 26 of the Act to file an annual return with the Registrar upon the form prescribed, known as Form E, and give the following particulars:—

1. The names, addresses and occupations of all persons who are, or have been, members of the Company since the last return, giving the number of shares of each class either held or transferred at the date of the return and the dates when transfer deeds were registered.

2. The summary must contain the number and class of shares issued otherwise than for cash, and

1. The total amount of the authorised capital of the Company, and the number of shares of each class into which it is divided;

2. The number of shares taken from the commencement of the Company up to the date of the return;

3. The amount called up on each share issued;

4. The amount of calls which have been received;

5. The amount of calls remaining unpaid;

6. The amount of commission paid or allowed for shares or debentures issued since the previous return;

7. The total amount and number of shares forfeited;

8. The amount of shares or stock outstanding at date in the form of share warrants to bearer;

9. The amount of such warrants both issued and surrendered since the last return;

10. The number of shares or amount of stock represented by each of such warrants issued;

11. The full amount of any sums owing by the Company carrying a charge against its assets.

This return must be made up as on the fourteenth day following the date of the General Meeting. If more than one General Meeting is held in the year, the return must be made after the first meeting. The Secretary or manager must sign and file it within a further seven days, i.e., twenty-one days after the meeting. Every director or manager who knowingly permits default in filing this return is liable to a penalty of £5 per day.

It is also necessary to file with the Annual Return a statement giving the particulars of the assets and liabilities of the Company, but this statement need not include a profit and loss account. The Registrar also requires the auditor’s certificate to be attached to this statement. It is usual to paste the printed balance sheet of the Company on the form, and add any further particulars that may be required, such as whether the fixed assets are shown at cost, and if depreciation has been deducted.

A specimen copy of Form E, which has been filled up as required, is given here.

**Private Company Requirements**

Private Companies, as previously stated, are not required to file a balance sheet. The annual return should be made up from the register of members, and when completed it
must be copied and the copy should from part of the share register.

If the Company is a private one, a certificate signed by the Director or Secretary must be attached, stating that no invitation to take shares or debentures of the Company has been offered to the public since the filing of the last return or since the incorporation of the Company. As already stated it is also necessary to include a copy in the annual return of the register of directors.

II

FINANCIAL DUTIES

Amongst the Secretary's most important work is the control of finance; it will be only a partial control, for the responsibility for the bulk of expenditure rests with the management.

It will usually come within the province of the Secretary, however, to see that proper methods are employed in dealing with current finance, such as the collection and payment of accounts, arrangements with the bank, and discounting of Bills of Exchange. To what extent the Company will make use of Bills will in principle be settled by the management. Customers may wish to extend their credit by giving Bills, or the Company may wish to do so for a similar purpose.

Bills receivable may be kept by the Secretary until they mature, or they may be discounted by the bank. That is, the bank will advance the face value of the Bills, less a discount; in other words, a charge for interest.

Where the practice is to discount "trade" bills, the discount rate, in ordinary commercial businesses, is a matter of arrangement with the bank. The rate will depend on the reputation and standing of the firm, and is often the subject of bargaining. The discount rates for short dated bills are published day by day in the papers.

A bank will generally grant special terms to a Company or trader whose credit is good, and whose transactions run into substantial figures.

There are, of course, firms of bill brokers whose business is to deal, or trade, in bills of exchange, especially bills drawn on foreign countries. Here questions of foreign exchange come into play. These bill brokers are distinct from discount houses, whose chief business is to procure the discount of bills that have some time to run before they mature. The subject is fully dealt with in another chapter.

It is sometimes possible to obtain better rates from the bill brokers than from the bank. A bank, for a good customer, will probably not charge a commission on the amount of the bill, but in other cases a commission will be charged.

The commission is a sum to be paid in addition to the rate of interest, which is based on the bank rate. For example, if the discount is 5 per cent. and the commission 1/2 per cent. on a bill having thirty days to run, the customer is paying at the rate of 8 per cent. per annum. If the commission was 3 per cent., the customer or borrower would be paying only 6 1/2 per cent. per annum.

If a Secretary (assuming he is in charge of such things) is asked by a customer to take a bill in settlement of an account, thereby prolonging his credit, he would first satisfy himself of that customer's credit before doing so.

Loans and Overdrafts

One of the objects of a bank is to advance money to its customers; where a firm or company wants a loan or an overdraft the terms are a matter of arrangement. The subject is dealt with in the chapter on Banking.

From what has been said, it will be seen that the proficient secretary may have much to do in keeping the
management and the Directors well informed on financial points from time to time. He will not only prepare information of the actual state of matters on any given date, but he will be prepared to supply a forecast of requirements well ahead of the present needs.

III

INCOME TAX

The preparation of Income Tax returns (which is the duty of either the Secretary or Accountant) is often a difficult and vexatious problem. This subject is very fully discussed in another chapter; it is not one that any Secretary can afford to be ill-informed upon. He should have a complete knowledge of the Income Tax Consolidation Act, 1918; otherwise he will not be capable of drawing up the necessary account for income tax purposes and claiming proper allowances.

The Income Tax Acts regard the Secretary as the agent for the Company, and he is personally liable for default in supplying the information required. Under Section 107 he is liable to a penalty of £20 plus treble the tax which ought to be charged should he default. This penalty cannot be passed on to the Company.

Although Form 1 or 1a is the return required for the assessment of profits under Schedule D, it is customary for the computation to be settled by interviews and correspondence with the inspectors of taxes.

The printed report, balance sheet and profit and loss account are forwarded to the inspector, together with a detailed profit and loss account. The inspector has no right to insist upon the production of a copy of the Company's accounts, but it is advisable to supply him with all the information he desires, as the Commissioners can on appeal demand the production of the accounts, and all such information which they consider necessary to enable them to settle the appeal. Obviously, therefore, if the inspector and the Secretary of the Company can settle the amount of liability, it is advantageous to all concerned.

Under Section 106 of the Act, the Secretary must see that the Company's tax is paid, and he is authorised to retain out of the Company's moneys which come into his hands an amount which will settle the liability.

The subject bristles with difficulties, but these are dealt with fully in the chapter on Income Tax practice and procedure, which appears elsewhere in this work.

There is another matter in connection with income tax which the Secretary of a Company has to attend to. He is obliged under Section 105 of the Act to make a return of the salaries paid to the directors, and the staff where their remuneration exceeds £160 per annum.

The return must include pensioners, and those who receive payments for part time work excepting for specific fees. The return must be made on the prescribed form and should give a list of the names, addresses and remuneration paid to the employees. A director or manager is regarded as an employee.

In case of default, the Secretary is personally liable, as before, to a penalty of £20 together with treble the tax payable. Half-yearly returns must be made in respect of weekly wage-earners, but this return must not include clerks, typists, draughtsmen or those employed in similar capacities.

Where any remuneration is paid free of tax, the tax is paid by the Company, the amount of the tax being regarded as additional income and assessable to tax.
CHAPTER V

BANKS AND BANKING

BY

WILLIAM F. SPALDING

Fellow of the Institute of Bankers and of the Royal Economic Society.
Hon. Moderator in Banking and Currency to London Chamber of Commerce.


The British banking system of today is a wonderful piece of machinery; it is at once the admiration and envy of the whole world. Its interests are so widespread, its influence so far-reaching, and the sums of money in which it deals so large, that the man in the street may be pardoned if he is a little ignorant of its strength.

The way in which our great banks weathered the blasts of a war which shook to the very foundations the banks, not only of other nations which were engaged in the conflict, but also those of countries far removed from the war, proved to the world that there was not much amiss with the foundations of British banks. It is true, they have of recent years been the object of much criticism; Mr. Runciman at one time considered the London banks to be lacking in the spirit of adventure; while the late Lord Leverhulme described them as "rabbits tout court." To which criticism a great banker, Sir Charles Addis, said, the bankers might reply that "the conceys are but feeble folk, yet make they their houses in the rocks."

The Magnitude of British Banks

We shall see something of the services the banks render to the community in the course of this article; but as a preliminary we may say that the operations of our banks are of immense magnitude. In every financial operation of importance in the world we find British banks playing a rôle. The finance of war is still fresh in the public mind; post-war finance is before our eyes.

The banks are to the fore in almost every home financial operation, large or small; not only are they of enormous assistance to the domestic trade and industries of the country, but they are actively engaged in the finance of the foreign trade of the country. Their sphere is extending daily; their operations extend to our Dominions, dependencies and to all parts of the British Empire, and it is undoubtedly due to the banks that London is in the best sense of the word still the international money market of the world, whatever our competitors may say to the contrary.

Well, we live in an age of big things, and the development of British banks in recent years has been one of the biggest marvels of the age. Largely by process of amalgamation, the banking strength of the country has grown day by day, until we find
BANK OF ENGLAND.

The Bank at the busy corner of Threadneedle Street and Princes Street.

BANK OF ENGLAND

The court-room where every Thursday the directors meet to settle the Bank Rate.
the figures presented by the combined operations of the banks, and the extent of their resources, to be such as would have seemed little short of a miracle to the bankers of a century ago. We go further and say that few could have envisaged in 1913 the enormous growth in British banks and banking, as revealed by the statistics of 1926. Let us glance at a few of the totals.

In round figures, the paid-up capital of forty-six British banks in 1926 was £114,313,000; Reserves, £86,676,000; Notes in Circulation, £178,763,000; Deposits, including undivided profits, £2,429,049,000; Cash in hand and at Bank, £453,633,000; Loans and Advances, £1,365,401,000; Investments, £584,303,000; Bills Discounted, £288,972,000. And, in case anything further be required to convince the reader of the wonderful working of our great banks, we may add, that the total amount of bills, cheques, etc., passed through the London Bankers' Clearing House during the year 1925 was £40,437,119,000, which total, incidentally, was a record in the annals of the Clearing. So much by way of introduction; now to the subject itself.

The great banks in the City of London, or for that matter, those in any large town in the United Kingdom, present to many people just such an air of delightful mystery as did the premises of the forerunners of the banks—the London goldsmiths. The operations to the man in the street are even more mysterious, and he might be pardoned if he echoed the words of the merchant, who in the year 1676 wrote to a country gentleman somewhat as follows:

"These people (the goldsmiths) draw great cash into their coffers, some of them stick to their old trade, but all of them that have friends and credit aspire to this new mystery of becoming bankers or cashiers."

Then, about a century later, we find a speaker in the House of Commons raising a pertinent query about banks and banking: he said:

"What is it that we call a banker? There is in this City a company or corporation, called goldsmiths, and most of those called bankers are of that corporation: but, so far as I know, there is not a company or corporation in England called bankers, nor has the business any definition or description either by common law or by statute. By custom we call a man a banker who has an open shop, with proper counters, servants, and books, for receiving other people's money, in order to keep it safe, and return it upon demand; and, when any man has opened such a shop, we call him a banker, without enquiring whether any man has given him money to keep or not; for this is a trade where no apprenticeship is required, it having never yet been suggested that a man who sets up the trade of banking could be sued upon the statute of Queen Elizabeth, which enacts that none shall use any art or mystery then used, but such as have served an apprenticeship in the same."

Lombard Street

It seems that the profession of banking has been enshrouded with an air of mystery almost from its infancy, so there is some excuse for that feeling, akin to awe, with which the person who has had no previous dealings with a bank views the art, trade, or whatever one likes to call banking. It may serve to dispel some of the mystery if we give a lightning sketch of the evolution of banking.

Its origin is commonly ascribed to the Lombard Jews of Italy. Banks and banking, however, were of much earlier date. The Chinese had a system of credit-currency between the years 907 and 1022, from which some sort of a banking system was later evolved. The early monetary affairs of the old Greeks were cared for by bankers—termed "trapezitae," because they sat at tables in the
market places, the centre of all business transactions. They had something in the nature of state banks for the more important business, which was undertaken by the great sanctuaries of Delphi, Delos, Ephesus and Samos; these were much used as banks for loans and deposits, both by individuals and Governments.

The Romans had a highly organized system of finance, and there is little doubt that the development of Roman banking was due to the commercial experience gained from the Hellenized East. It was commerce, in a word, that gave rise to banking—banking, that is, as we know it to-day, and as we hope the reader will know it before he has finished.

To come to our own banking system, even if the Jews of Lombardy were not the first bankers, it is to them that the word "Bank" owes its origin. The term is derived from "banco," an Italian word for bench. The Lombards, like the early Greeks, transacted their business in the market place; they sat at benches to carry on their operations in money, credit and bills. If one of these Jews could not meet his engagements, summary justice was meted out to him, for his "banco," or bench, was broken up by the crowd; hence the term "bankrupt," a broken bench, from which we get the nasty word which we apply to-day to the person who has to suspend his business operations when he cannot meet his just debts.

The Business of a Bank

We need not dwell further upon the historical side of banking, except to admit that early banking in England seems to have developed from the operations of the Lombards, those strangers who were forced to meet in that narrow thoroughfare in London which took their name—Lombard Street. There they met for the purpose of carrying on and adjusting their bargains, and it fell to their lot to stand and to walk in the rain more like pedlars than bankers or goldsmiths; but from that humble beginning has arisen the street which probably controls more wealth than any other street in the world. Their operations were very simple, though the populace, then, as now, was always mystified, and doubtless it suited the pseudo-bankers to surround their business with mystery—it made for safety. To-day the primary functions of every bank, whether large or small, are simple, and we need not fear mystery where none exists.

Of what does the business of a banker consist? Purely and simply that of dealing in credit, or as, perhaps, for the sake of clarity, we had better say, dealing with money. One remembers the humorous way in which a present-day banker described his job: "I buy and sell money, just as a greengrocer sells apples." By money he meant, not only the gold, which we see so rarely now-a-days, silver, copper, currency notes and bank notes, but also representative money, that is, all sorts of documents giving the title to money, such as cheques, bills of exchange, promissory notes, and the like.

Bankers to-day do seem to take a delight in surrounding their business operations with a mass of market jargon, but to clear the trade from the wealth of verbiage attached to it, we may at once say that the primary functions of a banker consist of two things—the accepting of deposits and the granting of loans.

Let the reader visit one of our great banks to-day; he will wonder where the business of banking begins and ends. "Current Accounts Department," "Stock Department," "Opinions Department," "Deposits Department," "Outward Bills," "Inward Bills," are a few of the signs that will meet his eye. But, if the visitor will take heart of grace and ponder awhile, he will find that to come to rock bottom, the banker is first and
foremost a dealer in credit, and most of his other operations have credit for their basis.

**Lender and Borrower**

The business world comprises two sections, those who want to lend and those who want to borrow, and to enable each class to get quickly into touch with the other, the banker acts as the intermediary. He is the dealer in money who is the connecting link between the two parties. But note this, the banker acts in a dual capacity, for he is both a lender and a borrower, and the difference between the rate at which he borrows and that at which he lends constitutes his profit.

In using the verb "to borrow," we do so in the wide sense to describe the receipt of deposits by a bank, generally without interest, and here it is we perceive the primary function of a bank, which is in the receiving of deposits and their subsequent utilization for loans and other accommodation to clients. The receipt of deposits is the most important function of banking, because it entails the bringing into actual use of small sums of money which, without the aid of the banker, would have been hoarded or would have remained unproductive.

By the ingathering of deposits the banker procures the wherewithal for accommodation to those who have need of and can use additional capital to carry on their financial or commercial operations. By effecting the transmission of funds from place to place, the banker also enables money to find its outlet in the most productive channels. The progress of a country, to a great extent, is dependent upon its banking facilities. The absence of banks retards progress, accentuates hoarding, and hinders the development of commerce and industry. That has been demonstrated in countries like India, where great efforts are being made to extend the establishment and use of banks.

There are other related services performed by banks which are perhaps less essential to production, though they are important and useful as subsidiary agents in commerce and industry, and are profitable to the banker. One of these is the issue of notes, which, as it is connected with the more technical side of banking, we propose to dismiss with just a word or two.

The note circulation of banks, which in early banking was thought to be of so great importance, has, as far as the major part of the banking strength of the country is concerned, become insignificant. It has become almost entirely centred in the Bank of England, and as it is possible that the Government's issue of currency notes will also soon be part and parcel of the Bank of England's issue, we need not ponder further on the subject. We may just say that the note circulation is a very well managed and efficient part of the currency system of Scotland. The receiving of deposits and the lending of capital, either direct or by means of loans, and the discounting of bills of exchange have taken the place of the note circulation in joint stock banking.

It has been stated that this practice of receiving deposits and of lending is simple; so simple indeed is it that it was practised long before the establishment of regular banks. That was seen in the early operations of the goldsmiths. The demand for such simple services comes early in the life of every growing community. There are people who have saved and who want to leave their savings with someone else for safekeeping, and once this principle of making other persons custodians for one's accumulated funds develops, there soon arise enterprising persons who see, or who think they see, golden opportunities in business if they can find the funds with which to finance their operations.
Safety First

Now, the first thing a man has to decide, if he has the wherewithal to open a banking account, is, who is to have the custody of his money. Here a word of caution is necessary. The business of banking has been much abused in the past in England, as elsewhere. So let the reader not be tempted by those banking borrowers who seek his custom by unorthodox means. There is really little excuse at the present day for people to entrust their business to other than reputable banks. Certain institutions do from time to time attract a large clientele by specious methods and alluring advertisements.

We may instance the case of the Charing Cross Bank, which failed in 1910 and brought much misery to small businessmen and others. It transpired that this institution was to all intents and purposes a money lending concern which attracted fairly large deposits, and subsequently embarked them in all sorts of doubtful enterprises. Another so-called bank which was liquidated in 1911 was the Birkbeck Bank; it came to grief mainly through its connection with building trade finance. More recently, in December, 1920, the British public was hard hit by the failure of Farrow’s Bank, a concern having a large number of depositors of the small tradesman and artisan class, who also had been induced to lend their money to the bank by the offer of absurdly high rates of interest. These failures gave prominence to the necessity for care in the choice of a bank. Safety first should be the motto.

To-day the banking position of the country is a strong one. It is the day of large banks, and the man who wants to rest comfortable in the assurance that his money is safe cannot do better than entrust his money with one of the big institutions which have branches in every town. At one time if a man wanted merely to be safe, he looked round for a savings bank; but at the present time all the joint stock banks accept deposits, both large and small, on which they will pay varying rates of interest, according to the amount deposited and the time for which the deposit is to run. The banks undertake banking business of every description; it does not matter whether it be savings bank accounts, current accounts, the finance of the internal trade of the country, the finance of imports and exports, or whether it be the finance of business enterprises, loans, discounts, or foreign exchange operations, the banks stand ready to lend their aid.

Apart from the joint stock banks, there are also the powerful Overseas banks which are occupied more particularly in financing the overseas trade of the country. This being so, a man has little excuse for relying on any but the highest class of bank.

Opening an Account

The first thing, then, is to choose the bank; having done that there are the preliminaries relating to the opening of the account to be gone through. An interview with the banker is essential, and an introduction is usually necessary, either from a person of standing, or from someone known personally to the bank. The first step taken, the rest is comparatively easy. Bankers are an obliging set of fellows, always ready to teach and advise, so the would-be customer need not be afraid to ask for help and guidance.

After the introduction, the banker requires a specimen of the customer’s signature, in order that the signature on cheques or other documents which the client may subsequently sign may be verified. The customer must be careful to use the same signature on any instruments he may sign from time to time; failure to observe this elementary rule causes
much trouble both to banker and client.

Most bankers are also careful to get the full names, christian and surname, and the occupations of their clients. Needless to say, the full address is also required, and such other particulars as will simplify the future working of the account.

The banker will also explain the usual requirements of his bank. On the assumption that it is a current account that is being opened, he will tactfully enquire whether it is desired to keep a large or small balance with the bank. If the average balance to be kept is fairly large, no charge for keeping the account will be made, and the banker may even allow a small rate of interest. If, however, a comparatively small balance is to be maintained, a trifling charge will be made; it is usually about 7s. 6d. per quarter, sometimes more, rarely less.

Some of the Overseas banks in London have a rule, more observed in the breach than in the observance, that the average monthly balance must be maintained at £50. Interest is, it goes without saying, always charged on overdrafts.

"Why should the banker make a charge?" it may be asked. One reason is that he is entitled to some recompense for all the trouble and expense involved in keeping the account; secondly, with current account money which he is always liable to be called upon to pay out on demand, the profit is small, since the banker has always to keep a certain amount of money in his coffers lying idle in readiness to meet the demands of his clients.

**Current Account and Deposit Account**

It is well at this stage to emphasize the difference between current account money and deposit money. Although both classes are bulked together in most bankers' balance sheets under the popular title of "Deposits," yet in all banks there are really two sets of accounts. A current account, as its name implies, is one into which sums are paid in and from which sums are drawn out day by day by the bank’s customers. It is the account on which cheques are drawn. Money on current account, being a debt, is just like any other debt, repayable on demand. Except in special cases (i.e. where customers keep a large daily balance) no interest is allowed on current account money.

In a much-quoted case—Foley v. Hill—the House of Lords laid down very definitely that the duty of a banker is to pay the money when drawn upon by cheque, or when demanded.

Deposit accounts, or, as bankers frequently term them, "Fixed Deposits," are more particularly utilized for saving, or for putting by money until it is needed, say to meet the demands of the income tax or super tax collectors. Deposit accounts bear interest at rates varying with the time for which the money is deposited. A seven-day deposit, for instance, will not earn much interest, but for one for 3, 6 or 12 months correspondingly higher rates will be paid by the banker, since he has a definite time within which he can use the money without being in danger of meeting a demand for payment.

In these days of keen competition among the banks, depositors are often able to exact rates higher than those advertised. More especially is this the case with large and influential companies, who have substantial amounts on fixed deposit with the banks at special rates of interest. Deposits of this nature cannot, as a rule, be drawn upon by cheque, though it may be mentioned in passing that a banker is perfectly entitled to set off a debit balance in current account against a credit balance in deposit account; in other words he is legally entitled to combine the two accounts of his customer. There is
even here a certain advantage to the customer in keeping a current account and a deposit at the same branch of a bank.

If the current account be overdrawn, bankers do not return cheques, although no arrangement has been made to grant an overdraft; the credit in deposit account will be held as security until the current account is put in funds.

How to Draw a Cheque

It is curious how careless people are in making out cheques, so perhaps a few hints on the subject may not be out of place. A cheque is defined by the Bills of Exchange Act as a “Bill of Exchange drawn on a banker payable on demand.” The cheque comes into existence by the banker’s authority; it is drawn on the banker by the customer, and here is a specimen:

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DB/31
L.W. B.295-462


Hulland Bank Limited
103 Streatham Hill, S.W.2.

Pay Tom Jones Esq.
Twenty-Five Pounds Ten Shillings

\$25-10-0

John Smith.
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The reader will note that the cheque bears a twopenny stamp. This stamp is an impressed Inland Revenue one, and is on the cheques before they are handed out to the customer, whose account is charged with the cost of the stamps. The first point is the date; this must be filled in before a person who draws it parts with the cheque. The month should be written in letters, not in figures. The person drawing the cheque is called the “Drawer,” and the one to whom he makes it payable is termed the “Payee”; the banker upon whom the cheque is drawn is termed the “Drawee.”

In the specimen given, John Smith is the drawer and Tom Jones the payee. Care should be taken to write the name of the payee clearly and distinctly, and blank spaces should not be left; in drawing a cheque the customer should begin to write, as near the left-hand margin as possible, the amount in words and figures. Care, too, should be paid to the spelling of the payee’s name, as cheques are not paid by bankers unless the endorsements correspond in every respect with the name of the payee. For example, a cheque drawn payable to

Jones & Co. cannot be paid on the endorsement of Tom Jones & Co.
Brown & Co. cannot be paid on the endorsement of Brown Brothers.
T. Brown cannot be paid on the endorsement of T. Browne.

It is important, too, to see that the words in the body of the cheque and the figures correspond; the amount in words is held legally to be the sum payable, the figures in the bottom left-hand corner of the cheque are merely to facilitate reference. Attention to such details saves both the banker and the drawer from the
Relating to Bank and Customer

Now, we do not want to wander into the valley of the dry bones of law, but it is well that the reader should understand correctly the relation between himself and a banker. The relation between banker and customer is that of debtor and creditor. So long as the customer has money standing to his credit in the books of the bank, the bank is debtor and the client a creditor. But note this: the banker is in no sense a trustee of the moneys paid in by the customer. Directly the money passes into the control of the banker, it is his money.

So we get the curious legal dictum that actually a banker has no money in his hands belonging to the customer; consequently, if the customer pays money over the counter of a bank to the credit of his account which is not overdrawn, and the bank cashier has got his hand upon it, the person paying in the money cannot take it back, even if he suspect the solvency of the bank.

It is equally important to remember that the instant the cashier, when cashing a cheque, places money within the control of the person presenting the cheque, the bank cashier also cannot take back the money—there is actual delivery and possession. The customer should also bear in mind that if the funds in his account be low, and he should knowingly or unknowingly draw a cheque for a larger amount than the bank owes, the banker is not bound to honour it. For example, if the customer has £50 to his credit, and he draws a cheque for £60, the banker is quite within his rights in declining to pay the cheque, and he is not bound to offer to pay the sum actually at the credit of the drawer.

Of course, if an advance or an overdraft has been arranged, the banker is bound to honour cheques up to the amount of the agreed accommodation. The banker, having undertaken a contractual obligation, has certain
duties to perform, apart from the relation of debtor and creditor, so there is a superadded obligation on the part of the banker to honour the customer’s cheques if the account be in credit. A cheque drawn by a customer is in point of law a mandate to the banker to pay the amount named in the cheque. The customer is therefore a mandant—the person who commands—while the banker is a mandatory—the one who has to obey.

Forgery

Now so long as the banker pays the cheque honestly and fairly, he is entitled to debit the sum he pays to the account of the drawer, even though the signature of the payee or even that of an indorser be forged. But though the banker is protected against a forged indorsement, he receives no protection if the signature of the customer, that is the drawer of the cheque, be forged.

A banker is bound to know the signature of his customer, and, if he pays a cheque bearing the forged signature of his customer, he cannot charge the account of the customer with the amount. Further, if the cheque has been altered and made payable for a sum larger than that for which the customer made it out, the banker is precluded from debiting the account of his customer with the forged amount; he can only charge him with the sum for which the cheque was originally drawn.

Just as the banker has very definite duties to perform, so has the customer. He contracts reciprocally that in drawing his cheques he will draw them in such a form as will enable the banker to fulfil his obligation, and therefore in a form which is clear and free from ambiguity. To adopt the keen insight of Shakespeare:

"How oft the sight of means to do ill deeds
Makes ill deeds done!"

By which we mean that the customer must not do anything, so to speak, to invite crime. A recent case will illustrate this. Lord Finlay said:

"It is beyond dispute that the customer is bound to exercise reasonable care in drawing the cheque to prevent the banker being misled. If he draws the cheque in a manner which facilitates fraud, he is guilty of a breach of duty as between himself and the banker, and he will be responsible to the banker for any loss sustained by the banker as a natural and direct consequence of this breach of duty. It has been often said that no one is bound to anticipate the commission of a crime, and that to take advantage of blank spaces left in a cheque for the purpose of increasing the amount is forgery which the customer is not bound to guard against. I am unable to accept any such proposition without very great qualification. As the customer and the banker are under a contractual relation in this matter, it is obvious that, in drawing a cheque, the customer is bound to take usual and reasonable precautions to prevent forgery... If the cheque is drawn in such a way as to facilitate or almost invite an increase in the amount by forgery if the cheque should get into the hands of a dishonest person, forgery is not a remote but a very natural consequence of negligence of this description." (London Joint Stock Bank v. Macmillan and Arthur.)

We make no excuse for dwelling on these points—their importance warrants it, and we conclude with a further excerpt taken from the judgment by Lord Shaw in the same case:

"The case must be taken as the simplest one, namely, of a cheque duly signed, forwarded on behalf of the customer to the banker and honoured. There are in these circumstances reciprocal obligations. If the cheque does not contain on its face any reasonable occasion for suspicion as to the wording and signing of its contents, the banker, under the contract of mandate which exists between him and his customer, is bound to pay. He dare not, without liability at law, fail in this obligation, and the consequences to both parties of the dishonour of a duly signed and ex facie valid cheque are serious and obvious. In the second place, if there be on the face of the cheque any reasonable ground for suspecting that it has been tampered with, then that, in the usual case, is met by the marking, 'refer to drawer,' and by a delay in payment until that reference clears
away the doubt. Always granted that the doubt was reasonable, the refusal to pay is warranted. These obligations on the banker do not, of course, exist until after the cheque has been presented.

"Upon the other part there are obligations upon the customer. In the first place, his cheque must be unambiguous and must be ex fæci in such a condition as not to arouse any reasonable suspicion. But it follows from that it is the duty of the customer, should his own business or other requirements prevent him from personally presenting it, to take care to frame and fill up his cheque in such a manner that when it passes out of his (the customer's) hands it will not be so left that, before presentation, alterations, interpolations, etc., can be readily made upon it without giving reasonable ground for suspicion to the banker that they did not form part of the original body of the cheque when signed. To neglect this duty of care fulness is a negligence cognizable by law. The consequences of such negligence fall alone upon the party guilty of it—namely, the customer."

Open and Crossed Cheques

So much for the relation between banker and customer. Let us now turn to another aspect of cheque drawing. Suppose John Smith, the drawer of a cheque, wishes to get money from his bank, he will usually pay a visit, armed with his cheque book, to the bank. There he will write out his cheque, and whether he has an "order" or a "bearer" cheque book, it will be sufficient if he writes after the word Pay—"Self," or "Cash," and then completes the cheque in the manner we have indicated. However, if he leaves in the word "order," the cashier may rightly insist on his endorsing the cheque. If his cheque is one to "bearer," there will be no need to endorse it. A cheque made out in this way is called an open one.

Cheque books, as will be observed, are issued with a counterfoil, and the methodical man of business will be careful to see that when making out the cheque he also fills in the counterfoil, as it is useful for reference.

Cheques not payable on demand should be crossed. To cross a cheque is to draw across its face two parallel transverse lines. Where a cheque bears across its face an addition of (a) the words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or (b) two parallel transverse lines simply, either with or without the words "not negotiable"; that addition, states the Bills of Exchange Act, constitutes a crossing, and the cheque is crossed generally. Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially to that banker. This is called special crossing, the other way is general crossing.

The custom of writing the name of a banker across the face of a cheque is said to have originated from the practice of the Clearing House, where the clerks of the different bankers who did business there were accustomed to write across the cheques the names of the accounts.

General Crossing

To return to the general crossing. It is customary to draw across the face of the cheque two transverse lines and between the lines to write the words "and Co."; when this is done, it operates as a notice to the banker upon whom the cheque is drawn that he may not pay it over the counter, but only pay it to another banker, who, by the way, is called the "collecting banker." The object of crossing a cheque is to ensure greater protection when sending cheques through the post; as the cheques are only paid through a collecting banker, it is much more difficult for the wrongful person to get the crossed cheque paid than it would be if the cheque were open. It adds still greater security if the drawer of the cheque adds to the crossing the words "Not negotiable,"
for, if it does happen to get into wrong hands afterwards, no one has a right to it except the true owner.

To illustrate the meaning of a "not negotiable" cheque. Suppose it goes astray and gets into the hands of a wrong-doer, I. Catchem, by name, and that worthy takes it to U. Cheatum, an obliging tradesman. The latter is persuaded to cash it. When the fraud is discovered, U. Cheatum will have to return the cheque to the true owner, or, if he has passed it through a bank and got cash for it, he will have to refund the amount.

A short description will make plain the effect of the crossings. First we have the general crossing. Either the drawer or the holder of a cheque may cross it generally. This, as we have seen, can be done in several ways; the crossing may simply consist of the words "and Company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or either of the individuals mentioned may draw two parallel transverse lines across the cheque, with or without the words "not negotiable."

Special Crossing

Then we have the special crossing. Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," the cheque is said to be crossed specially and to the banker named in the crossing. A cheque may be crossed generally or specially by the drawer, and where a cheque is uncrossed, the holder may cross it generally or specially. Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."

The point to note is that crossed cheques, unlike open cheques (those simply payable to bearer or order without the crossing), are payable only through a bank. That is to say, if the reader receives a cheque crossed generally, he cannot present it to the bank upon which it is drawn and demand cash over the counter. He must pay it in to his own banker, who will pass it through the Bankers' Clearing House for presentment and payment, and when it is paid he will credit the customer's account with the proceeds.

A special crossing is put on a cheque when the drawer of a cheque knows, or is informed of, the name of the bank in which the person to whom he is sending the cheque has an account, and the effect of the crossing is that the cheque will only be paid to the banker whose name appears on the crossing when presented by him through the Clearing House in the ordinary way.

Some of the expressions on cheques such as "and Company," "& Co.," "a/c Payee" mystify the business man. They are easily explained. The words "and Company" or "& Co." have no particular legal meaning: they are merely a relic of the old coaching days when mails were frequently robbed. As a rough sort of protection drawers of cheques wrote the words across their cheques as part of the name of the bankers, through whom they were to be paid, the idea being that the payee should fill in the full title of the bank when he received the cheque. It was a doubtful protection at best.

The words "a/c Payee" have no legal sanction under the Bills of Exchange Act. They are a mere direction to the receiving banker, and, according to Justice Byles ("On Bills"), though the word "payee" means the person designated in the cheque as payee and not the owner of the cheque at the time when it is presented, the words "account payee" are not sufficient, in the case of a cheque drawn to order or bearer, to make it non-transferable within the meaning of the code. At the same time they operate as a caution to the
collecting banker who should thereupon make enquiries. Disregard by him, in the absence of explanation, amounts to negligence on his part. As regards uncrossed cheques presented over the counter for payment bearing such words, the paying banker would be within his rights in declining to pay on the ground that the form of the cheque was irregular.

Endorsing

We have spoken of endorsing a cheque. Concerning endorsements enough has been written to fill, not one book, but many books. But it is unnecessary to worry the business man with a lengthy statement. Shorn of all the legal and banking jargon which surrounds endorsing, all it is may be contained in the sentence—“A payee of a cheque endorses it when he writes his name on the back.” If a word of advice may be added it is: be careful that your endorsement is exactly the same as the description written on the face of the cheque, so if the instrument is payable to P. Brown, do not complicate matters by writing “P. Browne.”

In practice it is surprising to find how numerous are the incorrect endorsements with which one meets. For all practical purposes we may confine our remarks to three kinds of endorsements—they are, blank, special and restrictive endorsements.

A blank endorsement is merely the writing by the payee of his name on the back of the cheque. The effect is to make the cheque payable “to bearer,” and it may pass through several hands without further endorsement. The person eventually presenting it for payment is not bound to endorse it. He may do so if he likes and will probably not demur if the banker asks him to write his name on the back, but the point is that a banker cannot compel him to endorse the cheque as a condition precedent to payment.

Special Endorsements

A special endorsement is one that specifies the person to whom or to whose order the cheque is made payable. Thus, a cheque payable to Tom Jones may be endorsed by that gentleman “Pay Peter White—Tom Jones.” Until Peter White in turn adds his endorsement no one else could cash the cheque honestly. Of course, if Tom Jones had endorsed the cheque in blank by simply signing his name on the back and had then passed over the cheque to Peter White, the latter could have added the words “Pay Peter White” above Tom Jones’ endorsement.

Again, suppose he wished to hand over the cheque to Harry Brown, instead of writing above Tom Jones’ endorsement the words “Pay Peter White,” he could add the words “Pay Harry Brown” and then hand over the cheque to Brown, and it would be perfectly in order, since Harry Brown could present the cheque and by endorsing his name on it payment would be made.

Restrictive Endorsements

A restrictive endorsement, is, as its name implies, one that prohibits the further negotiation of the cheque, or which expresses that it is merely an authority to deal with the cheque as directed.

Examples of restrictive endorsements are: “Pay Tom Jones only,” or “Pay to the credit of Tom Jones at the Midland Bank.” Such endorsements give the endorsee the right to receive payment of the cheque, but give him no power to transfer his rights as endorsee.

Generally speaking, endorsements must follow the spelling of the name on the face of the cheque, even where wrongly spelt, but the payee or endorsee may, if he so desire, add his correct signature underneath. Care is necessary in the case of endorsements for limited companies. Certain officials of the company usually have
power to endorse and they cannot delegate this authority. A cheque made payable to Jones & Co., Ltd., may be endorsed
"Per pro Jones & Co., Ltd., John Smith, Secretary," or "For Jones & Co., Ltd., John Smith, Secretary."

Special Signatures and Endorsements
The rules for the signature and endorsement of cheques should be clear and unequivocal, but we fear that in practice they are greatly misunderstood. Further reference to a few important points may, therefore, not be out of place.

Three cases we have in mind are cheques on joint accounts, accounts of partners, and those of limited liability companies. To take the last case first. The power to sign and endorse cheques of limited liability companies is usually granted only to some high official of the company. The form of authority is supplied to the bank when the account is first opened, and usually takes the shape of a special minute passed at a meeting of directors and signed by them. Cheques henceforth will be accepted only when properly completed in accordance with the authority so given. The signature sometimes takes one form, sometimes another, but it will be definitely laid down in the instruction to the bank. Some companies adopt the form—

For the Rand Cement Company, Limited,
Peter Money, Isaac Wise J DIRECTORS.

Others—

For and on behalf of Jones & Company, Limited,
John Smith, SECRETARY.

Some bankers hold that the following method of signing is preferable—

"Per pro Jones & Company, Limited,
Cyril Bond, MANAGER.

But, in any case, the capacity in which an official acts must be stated; if it be the manager who signs, he should state manager after his signature. If a director, or two directors, that designation should be given on the cheque. An agent is not empowered to delegate his authority to sign, so if it is found necessary for any other person in the employ of the Company to sign, proper authority must be given and communicated to the Bank by the Company.

A less desirable form of signature adopted by some Limited Companies is "The Blanktown Company, Limited." This form is accepted by bankers, provided the cheque is so signed by a person duly authorised for the purpose.

Endorsements on behalf of Firms

We have referred in the course of this article to the endorsements on cheques payable to Limited Companies; we may add, that power to endorse should also be given to a high official, and that fact properly conveyed by the directors to the bank.

In accounts of partners and joint persons, all may be authorised to sign and endorse cheques, or only one of the partners or joint persons may be given the authority. The banker in such case will act only on the authority given when the account is opened. All the partners and parties to a joint account are required to be parties to any authority given to the banker stating whose signature is to be accepted on behalf of the firm or account of joint persons, whether in the signing or endorsing of cheques.

It should be noted, however, that a partner in a trading firm has an implied power to draw and endorse cheques and so to bind his co-partners. For instance, if an account be opened in the names of, say, Samuel and John Jones, either partner to sign, "Samuel and John Jones," a banker would be
justified in accepting and paying a cheque signed

"Pro Samuel and John Jones, Samuel Jones"

provided he was satisfied that the signature is that of Samuel Jones, the partner.

As regards endorsements, these of course must follow the form given on the face of the cheques: thus, a cheque written “pay Brown & Co. or order,” is correctly endorsed “Brown & Co.,” even if the firm be John Brown & Co. Further, if a cheque is made out to Johnson and Smith, it may be endorsed “Johnson and Smith,” or may bear the endorsement in the handwriting of each partner, say, John Johnson, Harry Smith.

In the case of cheques made payable to joint persons, both of course must endorse them, unless one person has the authority to sign for the other, though the banker has to be satisfied on that point.

**Executors and Trustees**

The signatures and endorsements of executors and trustees are a frequent source of trouble to bankers, but the procedure is simple if only such persons would exercise reasonable care. In opening such accounts the banker necessarily requires documentary evidence of the powers of all these people to sign and/or endorse cheques, such as probate of the will, letters of administration, trust deed, etc. When any such account is opened, bankers require exact instructions in writing as to who is to operate on the account, and the powers of each and all in regard to it. If one executor is given power to sign and endorse, well and good, the banker will act on the authority so given. If two or more are to sign, or one be empowered to act on behalf of the others, the banker will insist that the instructions are followed.

Similar principles apply in regard to trust accounts. But there is this point to notice, in the absence of instructions to the contrary, one executor can sign or endorse a cheque; in the case of trustees, all are required to sign. For example, a cheque made payable to the trustees of the late Tom Brown is incorrectly endorsed “For self and co-trustees of the late Tom Brown, John Jones.” The correct endorsement is

John Jones / Trustees of the
Peter Simple / late Tom Brown.

The business of trustees and executors, however, requires special treatment, and for full and definite information on it the reader is referred to our chapter on the subject.

We need hardly say that, in all the cases to which we have referred, specimen signatures of the parties empowered to sign and endorse cheques and similar instruments are required by the banker as a condition precedent to operating on the account.

Much that has been said about cheques equally applies to Bills of Exchange; this subject has been dealt with in a separate chapter, to which the reader may refer.

**Loans and Advances**

There remains to be discussed the subject of loans and advances, not the least of the services rendered by a banker to his clients.

Broadly speaking, there are four kinds of loans or advances in banking—at least so far as the business man is concerned; overdrafts in current account, demand loans, time loans and call loans. Some people require one kind of accommodation, some another.

In this business of loans and advances the relation between banker and customer is rather different; the banker is not a borrower, he is a lender. As we have seen most current account money is payable on demand or at very short notice; the
banker has therefore so to arrange his loan accommodation that the money does not form too long a lock-up. In other words, he has to be sure that he has sufficient floating funds always available to meet ordinary demands for cashing cheques, etc.

The banker does not undertake to supply fixed capital, what he tries to do is to meet all genuine demands for circulating capital. But even in supplying circulating capital, he has to be careful that his loans and advances do not clash with his demand liabilities. Current account money and other deposits are temporary loans to the banker, and in the same way he has to arrange that his loans to the public are of a temporary nature, the repayments falling due at or near the periods in which he is likely to need funds to meet customers’ drawings.

**Overdrafts**

An overdraft is a temporary loan to a customer who has a current account, generally against security of a readily negotiable nature. The banker agrees to allow the client to overdraw up to a certain limit for a certain length of time. Cheques should not be drawn for an amount in excess of the agreed limit. The main advantage of an overdraft is that the borrower pays interest only on the actual amount he draws. Interest is usually at 1% per annum over Bank Rate, and the first cheque drawn will mean that interest is payable on the amount drawn for the whole period of the loan; the next cheque drawn, assuming it is drawn at a later date, will carry less interest, and so on in proportion to the drawings.

**Demand Loans**

Closely akin to overdrafts are demand loans. These, as their name implies, are repayable on demand. In quoting a rate of interest to be charged on these loans regard is had to the class of security offered, and probable period for which the loan is required, though here again it is usually 1% over Bank Rate with a minimum of 5% per annum. Demand loans are made against all classes of security, produce, goods, stocks and shares, and against personal guarantees of third parties. Even though the loan is repayable on demand, it is the practice of bankers not to call for repayment without due notice, and often these loans, if the business is conducted satisfactorily, are allowed to run on for comparatively long periods.

Most bankers, however, require an undertaking that repayments shall be made at stated intervals, in other words, the loans are understood to be for temporary purposes only. A glance at any banker’s balance sheet will show that bankers keep their demand loans within well-restricted limits.

**Time Loans**

Then we have loans of a longer duration—time loans. These run for a given period, within which time they must be repaid. With both demand and time loans, the sum to be lent is credited to the customer’s account forthwith, and he has to pay interest on the whole amount of the loan, whether it be paid by instalments, or in one sum.

This form of accommodation is therefore more expensive than overdrafts. Time loans bulk largely in bankers’ loans, and they are generally regarded as a profitable outlet for the employment of surplus funds. Security is of all kinds. It is very closely scrutinized by bankers, and is watched carefully; if any noticeable depreciation occurs, the client is called upon to augment the security.

**Call Loans**

Call loans come in a category by themselves. They do not greatly concern the ordinary man of business, they are more properly restricted to advances to bill brokers, stock brokers, money brokers and other denizens of
the London Money Market. The rate of interest varies from day to day in accordance with the supply of floating money on the market. If funds on the market are plentiful, the rate of interest falls to a very low level; if money is scarce the rate will be correspondingly high.

Loans of this class are made only against readily realisable security, such as Treasury Bills, and other similar bearer securities, or against first-class acceptances of London banks. The borrower is entitled to repay his loan on any day, and the bank, similarly, can call in the loan whenever it likes. Hence the title, "day to day money."

Loans on goods and other produce, perhaps, call for special mention. The banker generally regards these as of a very temporary nature, and is apt to look upon the security as rather a hazardous form of cover, that is why the rate of interest is comparatively high, and the margin called for very ample. A margin of 20% or more is often required.

In all cases special arrangements have to be made with the banker; the golden rule for the business man is to see that such loans are paid off promptly, and the more he shows that he is prompt in repayments, the greater will be the confidence of the banker in him, and the lower will be the rate of interest exacted for accommodation.

Competition among the banks in normal times is keen. Large, well-secured loans form a profitable outlet for surplus funds; most large borrowers know this, and in consequence the best terms are a matter of bargaining.

The security for loans and advances is, necessarily, of importance to the banker. He has to see that he is amply covered, and that the security is liquid, i.e. capable of being turned into cash quickly, if required. On real property, the tendency is to insist on ample margin, and an independent valuation is required. Title deeds, etc., are verified by the bank's legal advisers, whether the security comprise a legal mortgage, simple deposit of deeds, with or without a memorandum of deposit. For advances on goods and produce, documents of title are required, and the security generally has to be under the control of the bank. An ample margin is always insisted upon by the banker.

The services banks render to exporters and importers are referred to in a chapter dealing with the Export Trade.

The Pass-book

The pass-book we have purposely left until last, with a view to letting the customer appreciate the items that may appear to his debit and credit.

The pass-book is simply a copy of the customer's account in a special book supplied to him by the bank. The business man should remember that it really contains copies of the entries recorded in his account in the books of the bank.

In no circumstances should the customer himself make entries in his pass-book. The pass-book should be regularly handed into the bank to be made up; only by adopting this practice can a man keep a regular check upon his account.

The general form of pass-book now issued by London banks is headed—"Dr. The A.B. Bank in Account with Tom Jones," thus emphasizing the debtor and creditor relation of the parties. The reader will appreciate that, following the heading, all amounts paid in by him will be entered on the left-hand or debtor side of the account, and all amounts paid out will be found on the right-hand or creditor side of the account.

Once the pass-book is written up by the bank, the entries are taken as prima facie evidence against the bank, and the amount shown in it standing
to the customer's credit is that upon which the customer is entitled to rely. However, although in ninety-nine cases out of a hundred entries in a pass-book are regarded in law as prima facie evidence against the banker, they are not conclusive evidence. A banker may be able to prove that certain entries were made in error, or in mistake of fact. Further, if it can be proved beyond all doubt that the customer has himself been guilty of negligence or fraud, the law will not enable him to take advantage of the banker's mistake: still the burden of proof is on the banker.

Other Services

The services rendered by bankers to their clients are so multitudinous that it is hardly possible to refer to them all in an article of this kind, but a brief summary of the principal features may be of interest.

Take investments, for instance. It is not wise for a person who has no knowledge of either stock exchange procedure or of the stock brokers who carry out the transactions to attempt to deal direct. Much better leave it to the banker, who is well-equipped for the business, deals only with reputable brokers, and will efficiently safeguard the interests of his client. All banks now have properly constituted departments for dealing in stocks and shares, home and foreign, of all descriptions. We need say no more here about the investment of savings, for all information on the subject the reader is referred to our chapter on the routine of buying and selling of stock exchange securities.

Then, we have the collection of coupons on bearer stocks, and the like, and the collection of dividend and interest warrants, all of which is attended to by the banker free of charge to the customer. Banks also undertake the safe custody of securities and other valuables, and so save their clients safe deposit charges, or the expense of purchasing a safe. Most banks grant this service without payment, but even so they have certain responsibilities to their customers.

In cases where the service is undertaken gratuitously, the general view is that the banker is theoretically only liable for gross negligence, concerning which, the eminent banking counsel, Sir John Paget, says: "gross negligence is a misnomer, for the duty to which the banker is bound and for breach of which he may be liable, indicates a higher degree of care than is correlative with the common acceptance of gross negligence. The banker is bound, as a gratuitous bailee, to take the same degree of care of the goods as a reasonably prudent man, with the same facilities at his disposal, would take care of goods of his own of the same description."

Again, a banker is the medium for making periodical payments for his clients, such as club subscriptions, life assurance premiums, remittances, and the like. He will also undertake the payments to other banks for the credit of directors, managers or other employees of persons and firms, even, sometimes to the extent of paying wages of employees. We have heard, for instance, of a great bank undertaking the encashment of wage cheques for a large tramway company. The extent of his responsibility in such cases seems to depend upon whether he is paid or receives a reward for his services, and, generally speaking, in cases of dispute, the burden of proof is on the client.

If a client desires to undertake a journey for pleasure or otherwise, it is the banker who is called upon to assist him by issuing a letter of credit or circular notes, which enable the traveller to obtain money in every foreign city, or even on a steamship. Further, it is the banker who will facilitate remittances of money to any part of the world. Again, if the customer wishes to send the remittance
under his own cover, especially in those cases where cheques are not usually desirable or convenient, it is the banker who will issue a demand draft, which enables the beneficiary to receive payment on demand at any place in which the banker has a correspondent.

The banker's services do not end here. He will undertake all the divers duties of a trustee or executor, and the probability is that the public are better served than where such duties are left to private persons. The rights and duties of executors and trustees form the subject of a separate chapter, so we need not ponder over the question of procedure.

The banker is a cosmopolitan sort of chap—if the customer be a merchant or trader and has to collect payment for his goods from the other side of the world, he will find the banker ready to assist him. Moreover, in this connection the banker very efficiently safeguards his customer's interests. Should the client require immediate cash, the banker again will act as a discounter, and be prepared to buy bills, less an agreed rate of discount. The modus operandi of bill discounting and the like receive detailed treatment elsewhere, and, as it is an important part of a bank's business, the reader should study carefully the special chapter on the subject.

Reference has been made to the remitting of money—a very useful function performed by present-day bankers. So great are the ramifications of the banks, that one may pay money into a country or foreign branch of a bank and have it quickly transferred to the centre in which he keeps his main account.

Bankers are also experts in income tax and super tax procedure, and for a reasonable fee will attend to the vexatious demands of the inland revenue. The above are some of the main services a bank renders to its customers.

The London Bankers' Clearing House

Finally, as a fitting conclusion to this chapter, we may refer to the Bankers' Clearing House, not the least important of the many parts of the machinery of the London Money Market. Few people realize the size and magnitude of the operations conducted in the somewhat obscure and dingy building, called the "Clearing House," in Post Office Court, Lombard Street. The Clearing House originated in 1773, and was the outcome of the somewhat clandestine meetings of London bank clerks, who sorted out their banks' cheques in the congenial atmosphere of a coffee house near Lombard Street. From so small a beginning has arisen the Bankers' Clearing House of to-day.

It exists primarily to simplify and facilitate the daily exchange of notes, cheques, bills of exchange, coupons, and other such items passing between collecting banker and paying banker. Payments due to and from one bank to another are made by means of a set-off. This off-setting of the claims of banks, one against the other, is really the central function of all such clearing houses, no matter where they exist.

With the effluxion of time, and the evolution of money, various other important functions have been added, until, at the present time, the London Bankers' Clearing House system is something more than a common receptacle in which items are balanced against each other. The Clearing House, in fact, is no mere collecting machine; it is a vast, co-operative association of banks working together for the common good of its members and for the country at large.

The London Clearing

The London Clearing is divided into three parts—in order of importance, the Town Clearing, the Metropolitan Clearing and the Country Clearing. The Town Clearing deals with the clearing (i.e. collection and payment)
of cheques, bills of exchange, notes, etc. in the City of London proper. The Metropolitan Clearing is of comparatively recent origin; it was instituted in 1907 for the purpose of facilitating the clearing of cheques, bills of exchange and other bank items drawn and payable at the various branches of banks outside the City, but within a certain radius of Lombard Street.

The Country Clearing was established in 1858, and is restricted to the clearing of country cheques and demand bills. Other bills of exchange are not passed through the country clearing, but are collected by the banks in the usual way, and customers’ accounts are not credited with the proceeds until the money is actually received by the collecting bank.

**Figures of the Clearing House**

The sums that pass through the Bankers’ Clearing House are of very large dimensions. During 1926, for example, the amount that passed through the Town Clearing was £35,346,429,000, through the Metropolitan Clearing, £1,660,757,000, and through the Country Clearing, £2,817,868,000, giving a grand total of £39,825,054,000. These figures show a slight decrease compared with 1925, due mainly if not wholly to the stoppage of the coal mines. The week recording the largest total was that ending January 6th. The amount of clearings during that week was £968,775,000, which was a record. The highest weekly total wholly in 1926 was for the week ending October 6th, viz., £907,854,000 and the lowest that for the week ending September 29th with £619,396,000. The highest daily total was for December 31st, £251,721,000. A daily turnover of £200,000,000 was reached on six occasions, against ten in 1925 and seven in 1924.

The number of bank offices utilising the services of the Clearing House has grown to over 8,900, and banking facilities have been extended, not only in the towns, but also to many villages by means of branches and agencies of the banks. In the last Report of the Bankers’ Clearing House, it is shown that in the year 1905 the number of banks whose cheques were cleared, or were subsequently cleared through the Metropolitan Clearing (established 1907), was 94, and the number of offices, 5,290, so that while the number of banks has, during the last 20 years declined by 78%, the number of banking offices affording banking facilities has increased by 68%. Who shall say that the efficient working of the British banking system has not increased correspondingly?
THE HEART OF THE CITY OF LONDON.
Royal Exchange in centre, with Bank of England on left.

LONDON'S FINANCIAL CENTRE.
Throgmorton Street. On the right is the Stock Exchange.
CHAPTER VI

THE MONEY MARKET

BY

H. S. OAKLEY


To the average reader of the daily newspaper the Money Article is, for the most part, meaningless; its jargon conveys nothing to him; its technicalities are as forbidding as those of a scientific treatise.

With a little elementary knowledge, the general reader should find no difficulty in reading the article, and if he invests money from time to time, he may well read it with profit to himself. There are a few technical terms which he must first understand if he is to follow the seemingly abstruse allusions which the writer of the money article reels off in his daily summary of doings in the City. It should be remembered that, just as a writer on scientific matters must be precise in his language, so must the financial writer; technical language and phraseology are for that reason unavoidable if the writer is to be brief and at the same time accurate.

The writers of the money articles in our daily papers, in describing what goes on in the Stock Exchange and the various movements that affect prices, usually deal with several things in consecutive order: (1) The Money Market; (2) British and Colonial Government Securities; (3) Railway Stocks; (4) Colonial and Foreign Government Securities; (5) Mining Shares, and (6) Miscellaneous Industrial Shares.

We shall deal here with the Money Market, the first of these subjects only, reserving the others for explanation separately.

What the Money Market Is

There is no Money Market in the ordinary sense of the word market. No separate building is set aside for dealing in money, like the Stock Exchange, for example, where securities are bought and sold, or the Corn Exchange, or the Wool Exchange, where the actual commodities are dealt in. While money itself is an exchangeable commodity it is not bought and sold, for that would mean exchanging money for money.

What, then, does the City Correspondent in the money article of our morning paper mean when he writes about the "price" of money? He is talking about the borrowing and lending of money, and the price he refers to is the sum one agrees to pay for the loan, or temporary use of money.

The Money Market, therefore, is no particular place or building; yet it is a very real thing, and plays a vastly important part in the financial machinery of the City of London. The Money Market simply denotes, in general, the conditions and relations that exist between business houses.
and financial houses, Banks, Bill Brokers and Discount Houses in dealing with each other in credit transactions. Before the World War bill brokers and foreign bankers met twice a week at the Royal Exchange to buy and sell bills, but these meetings are no longer held.

In the Money Market they deal in money and negotiable securities, as in the Covent Garden Market they deal in apples; supply and demand are the dominant influences; if the demand is big, the rates are high; if the supply is greater than the demand, the rates are low. Influences of a temporary kind also affect the condition of the Money Market; the Government may require a great deal of money to pay interest on its loans, so also railway companies and other big institutions; in time these sums filter back and the normal condition is restored.

The commodity dealt in on the money market is "short credit," an elusive thing in the myriad transactions that go to make up modern business. Through the medium of the Money Market then, capital may be transferred to where it is wanted, on payment of such interest as is demanded for a short temporary loan of it.

When the writer of the City article happens to say that money is "cheap," he means that there is more money available for loans than is normal; on the other hand, if he remarks that money is " dear," or that the money market is "tight," he implies that there is more difficulty in obtaining accommodation.

What it comes down to, then, is this: In the Money Market—any financial institution or house where you can borrow money in the City—you get money advanced to you in exchange for your promise to repay it on a given future day. Your promise, of course, must have some substantial guarantee behind it; either your own personal credit or some negotiable security. Your immediate needs will be met on the strength of other moneys falling due to you. But you must pay the price for this accommodation.

The banks and financial houses earn their income from lending money; if they should have more available money than they can well use on a particular day, it is obvious that they will be ready to advance money at lower rates of interest than they would otherwise do, just for the same reason that a merchant may take a less price than usual for his goods rather than not be able to sell them at all.

The "Price" of Money

That is the point briefly, but, as we shall see later, other factors come into play. The "price" of money, therefore, is what you have to pay for a short loan to a bank, a bill broker or a discount house whose business is to lend money. The difference between the amount the lender pays down and the amount the borrower has to repay is represented by the discount rate, in other words described as the price of money.

This discount rate will be at so much "per cent." In practice if the bill on which you are raising money is for £1,000 and the lender's terms are 3½ per cent. and the period is six months, the amount you will receive is £982 10s., but at the end of six months you must repay £1,000. The loans are usually for a less period than six months.

Other factors, as we have said, may make the transaction more complicated. This arises where the question of "exchange" comes into play, which it does when you wish to remit money to some other country to be payable to some person on a certain future date. Within the confines of Great Britain it is a simple matter to transmit money from one town to another. You may, for instance, buy at the nearest Post Office a money order which you can send to the person to whom you owe the money. He can take it to a Post Office in the town
where he resides and get it exchanged for cash. That is an example of a simple exchange transaction; an inland bill of exchange transaction is also a simple matter in itself; it is a written promise to pay to another person, on a certain date, a given sum of money.

But if, for instance, the money has to be sent to Shanghai, or to New York, the thing is not so simple, and there are various ways of doing it. International exchange and the methods of financing foreign trade through the medium of bankers, bill brokers and discount houses are explained in another chapter; the elements of time, exchange fluctuations, depreciated currencies, and other things complicate matters. The business of buying and selling foreign bills of exchange, as we shall see, is one of the most important in the City of London.

II

The Centre of the World's Money Market

Before the War, London was the Money or Credit Market of the world. Whoever wanted credit, no matter where they came from and no matter what the business involved, could invariably get it if their standing was good and they were prepared to pay the price. The War, of course, necessitated a temporary cessation of this extremely lucrative business. During the War and in the earlier post-war years, New York to some extent took the place of London as the world's financier. Some authorities indeed appeared to be under the impression that London's supremacy in this direction was completely shattered, never to be restored. New York, they believed, was to be the financial centre of the future.

They were wrong. The bill on London, never quite out of favour even during the War, is regaining its place. The pre-war position has been restored, so far as restoration under the pre-vailing conditions is possible, and London is once again in full control of the "short credit" business of the world. Some idea of the manifold reasons for this may be obtained from the following statement made by Mr. Otto Kahn, an American banker with a world-wide reputation.

"The often-heard talk of our displacing England as a world's financial centre is idle. The traditional position of England is the result of geographical, economic and psychological factors, of racial qualities, and the experience and practice of centuries. It is impossible to fulfil the functions of a great financial world centre without having a broad market of genuine receptivity for many kinds of foreign investments. We in America have no such demand as yet. Another requisite for a great financial world centre is a healthy, active and regular discount market, which thus far we have not developed to the necessary degree."

The fact is that London has for many decades made an intensive study of the world's borrowers, their business, their needs and their limitations. The knowledge and experience gained in Lombard Street and its environs are not accumulated in a day or a year. It was chiefly the lack of that knowledge and experience that made it impossible for New York financial houses and bankers to take full advantage of the opportunities the War presented to them. World trade, both national and international, is made up of innumerable transactions. Each purchase or sale is a unit in itself, begun and completed within a very short period. Were there no bankers, bill brokers, or bill discounters the financing of these vast, complicated and world-wide transactions would be a very cumbersome business indeed, almost akin to the barter methods of the earliest traders.

It is in this connection that the London Money Market has established its usefulness. Its function
has been to create a specialised machinery, whereby the manufacturer in Bradford can supply and obtain payment for goods sent to almost any part of the world with the minimum of delay, cost and inconvenience, or the merchant in London can purchase and obtain goods or produce from almost any part of the world with similar facilities.

Not only, indeed, has this usefulness been demonstrated in connection with trade between this country and the outside world; the bill on London is a favourite form of payment for transactions between, say, Argentina and China, or India and Hungary. It is obvious that in order to fulfil their mission the members of the London Money Market must have large funds at their disposal. Their business is not investment. The money or credit at their disposal is not locked up in any permanent form. It is intensely "liquid" in form, ever running out and being replenished, practically this is done from day to day.

III

Financial Operations

Let us see then how this Market, without a home and yet exercising so potent an influence in the world's trading transactions, is operated. It is composed of lenders, borrowers and intermediaries. At different times the individuals composing the Market act in different capacities, the lender to-day may be the borrower to-morrow. The composition set out above is rather a definition of operations than a separation of component parts.

The centre of the Market is the Bank of England—the Bankers' Bank. It is the final resort of operation in the Money Market, never approached till all other sources of credit have been exhausted. The most important of these other sources of credit is the joint stock and private banks, although the latter, owing to their steadily decreasing number, are of comparatively small importance. If a study be made of the balance sheets of the "Big Five," as the leading joint stock banks have come to be known, it will be seen that they have substantial sums included in their assets under the heading of "money at call and short notice." At the date of writing the average weekly amount included under this heading was £124,763,000. Add to this the funds lent to the market by issuing houses, foreign banks, other banks and large companies in whose coffers large sums have accumulated for specific use in the future, and the very substantial nature of the credit at the disposal of the Money Market will be realised.

In short, it may be said that any institution having at its disposal funds or credit for which it desires to find a temporary use in order that it may earn its keep, can find exactly the business it desires in the Money Market.

The most active section of the Money Market is that composed of the bill brokers and discount houses. As we have already pointed out they often unite in themselves the three operations for which the Money Market stands. (1) They are borrowers from the joint stock and other banks, from other sources where funds are available, and, when necessity compels, from the Bank of England. (2) When they discount bills for banks and commercial houses, they are lenders. (3) Their principal business, however, is in acting as intermediaries between business houses, both British and Foreign, who have bills to discount, and the joint stock banks.

It may be asked, Why should there be an intermediary? Why should not the banks lend direct to the borrowers? The answer is to be found in that specialisation to which we have already referred which gives
the London bill broker so strongly a position in world financing.

Banks, of course, specialise up to a point. Their statistical and information departments are elaborate organisations. Their range of operations, however, is a very wide one, and they cannot hope to have the knowledge, and it might almost be said the "instinct," which is possessed by the bill brokers or discount houses who have made a special study of this single side of financial life. Over long periods information has been obtained, connections and correspondents have been brought into being, all of which represent the last word in the organisation of information regarding the "standing" of commercial houses the world over.

The banks therefore are well content to leave this business in the hands of those who are expert at it. There are, indeed, substantial advantages in this arrangement from the point of view of the banks. They get large parcels of bills, and are saved the trouble and expense of dealing with the individual borrowers. They can select the particular bills that suit their convenience. And above all they have behind every bill they take the broker's guarantee that in any case of a bill being dishonoured the broker will meet the liability without question. This general guarantee, by the way, is the usual substitute for the bill broker's endorsement on the bill itself.

IV

How Business is Transacted

Now let us consider for a moment how the business of the Money Market is actually transacted. Every morning representatives of the principal bill brokers may be seen in the waiting rooms of the "Big Five." The city manager has made a careful study of his Finance Book. It has told him what money is likely to be received, what liabilities have to be met. Some of the figures provided for him are certainties, some are probabilities, while some are only possibilities. It is his duty to bring them into relation with each other, and to estimate, as closely as he can, the position of the bank at the close of the day.

Two main factors influence him. One is the necessity of keeping the amount of money at the credit of his own bank at the Bank of England steady. The other is to see that every penny of surplus available shall be earning something. Having made his estimates and come to a definite conclusion as to how the position will be at the close of the day, the manager is ready to see the representatives of the bill brokers. If he sees himself with a lendable surplus he is prepared to make loans and will arrange with each client the amount, period and rate of interest. If on the other hand his calculations show that his bank is likely to be "short," the conference with each broker will be concerned with the amount the bank will require each broker to repay, a little later in the day, of the loans already outstanding.

Buyer and Seller

These brief daily conferences in the bank parlours are in fact the Money Market. The commodity dealt in is short credit. The bank manager is the seller and his endeavour is to obtain the highest rate of interest possible. The bill broker is the buyer and his endeavour is centred on paying the lowest rate of interest possible. The actual rate charged will depend, as in the price of every other commodity, on demand and supply. If the bank managers have large surpluses, and the bill brokers are not too eager for accommodation, the rate will be low, or, as the newspapers say, "money is easy." If, on the other hand, the banks are "calling in" and bill brokers find their requirements unsatisfied the rate will be higher and "money is tight."
Two kinds of security are usually given by the bill brokers for the accommodation they receive, bills of exchange and "floaters." Bills, of course, are the commodity in which the brokers themselves deal. They represent promises to pay by members of the trading community and it is the business of the bill broker to see that the bills he takes into his portfolio are good for the money they represent at maturity. In other words, it is his business, as already pointed out, to know all that can be known about the standing of those whose names appear on the bills. When he hands these bills to the banks as security for loans they have behind them the broker's guarantee as well as that of the signatories.

The nature and uses of bills of exchange have been fully explained in another chapter. The other securities known as "floaters" are gilt-edged Stock Exchange securities, such as War Loan, Exchequer Bonds, Treasury Bonds. It has been estimated that the proportion of bills of exchange deposited with the banks, as security for the "short credit" extended to the Money Market, is about 90 per cent., the remaining 10 per cent. being made up of "floaters."

Bank Loans

The loans made by the bankers to the Money Market may be divided into four classes. The first class is "fixtures." These are funds lent for about a week. In the case of the large banks the period is seldom for more than ten days. Some other institutions, especially the foreign banks, will sometimes lend to the market for longer periods. A large proportion of the loans made to the Money Market is in the form of "fixtures." A study of the daily money report in the newspapers will show that the rate of interest for "fixtures" is generally a little less than the rate of discount at which Treasury Bills are allotted, thus enabling brokers, where they find it desirable, to take up and hold Treasury Bills at a profit.

The second form is in "day to day loans." These, while often really permanent in character, are liable to be "called in" from day to day. If repayment is not demanded before noon each day they are at the disposal of the broker for another day. It is not an uncommon thing for these "day to day" loans to be allowed to run on, when "fixtures" are called in. The rate of interest charged on them is a little less than that on "fixtures," owing to the liability of a sudden call for repayment. The rate often varies considerably, however, with the fluctuations in the surpluses for lending available at the banks. If the banks are "short" the rate will rise.

"Over-night loans" are the third form of lending. These comprise credit which the bill broker knows is really "short." They are generally raised for the purpose of accommodating clients who bring in bills for discount late in the day. The broker, anxious not to refuse business offered to him, seeks hurriedly among the banks, or other institutions, for one which has a temporary surplus left over. He borrows what he wants for the night only, knowing that the loan must be automatically repaid in the morning. In the language of the broker this is "bad money," as distinguished from the great proportion of the money borrowed from the joint stock banks. "Bad money" has to be repaid at once. "Good" money, while liable to be recalled on short notice, is, generally speaking, constantly renewed.

The fourth form is called "privilege money," a form of loan which is steadily going out of favour with the banks. It is usually a certain fixed sum which some of the large discount houses have arranged with the banks shall be at their disposal, should they desire to transact business
just before closing time, when it would be impossible to get in touch with the banks, in order to make the necessary arrangements enabling them to balance their books. The disadvantage to the banks is that they are always in doubt as to the amount of such "privilege money" in actual use.

When money becomes very "tight" the newspapers will often state that the Money Market is "in the Bank." This means that the discount houses and bill brokers, unable to get the accommodation they require from the joint stock banks and other institutions, have had to go to the Bank of England. They do everything they can to avoid this for several reasons.

First, they have to pay more for the accommodation granted to them, the charge for interest being generally one-half per cent. over Bank Rate. Second, there is no "day to day," or "over-night" lending by the Bank of England. Loans are made usually for one week, sometimes for a few days longer. The Bank is particular in seeing that only a certain total of advances to the Money Market matures on any one day, and no borrower is allowed to have more than the Bank considers he can reasonably repay on one day. It is often necessary, too, to find a larger margin. Bills or "floaters," deposited as security for loans, have to be of a value slightly in excess of the amount of the loan. This excess is the margin.

V

The Money Broker

These are the main operations of the Money Market. There are still one or two special features which should be mentioned in order to make the story complete. First there is the Money Broker, a member of the Stock Exchange, who, in addition to his ordinary business of dealing in stocks and shares on behalf of his clients, acts as an intermediary between smaller Stock Exchange firms and the banks. The banks do not approve of the more speculative Stock Exchange securities as collateral, and decline to lend against them. Here the Money Broker comes in. He obtains funds from the banks by depositing high class securities with them for which he pays only a low rate of interest. He then lends the funds to his fellow stock brokers, on more speculative securities, at higher rates. He needs, of course, to be a close student of market conditions, and is naturally extremely careful to see that there is a substantial margin between the value of the securities he takes and the advances he makes.

Accepting and Issuing Houses

Then there are the Issuing and Accepting Houses which play no unimportant part in the Money Market organisation, although they have well-defined duties of their own.

The special object of the Issuing House is to act as an intermediary between investors with capital and companies requiring capital. The method of operation may be summarised as follows: A company requires fresh capital for building a new factory, laying down new plant, financing new enterprise or any other of the many necessities that arise. Possibly it already has authorisation to raise the money by a new issue of shares. If not the Directors ask the shareholders for power to create new shares. When the preliminary steps are completed the problem arises of selling the shares to investors.

Here the Issuing House functions. Its officials are taken into consultation by the Company. First class houses insist on carefully examining the proposition before consenting to act. They have a reputation to protect, for, although they in no way guarantee the soundness of share issues in which they are concerned, the more par-
ticular they are the greater the confidence of investors in the issues they sponsor. Incidentally it may be remarked that the character and standing of the Issuing House should always be taken into account when investors are considering the virtues of a new issue. The Issuing House having satisfied itself that the issue is one which it is justified in acting for, a contract is signed under which it makes itself responsible for the detailed work of the issue. It advises on the drawing up of the prospectus, arranges the underwriting, plans out the advertising and in fact does everything it can to make the sale of the shares to the investing public a success.

It is when the prospectus is out and the subscriptions to the shares come rolling in that the Issuing House becomes a factor in the Money Market. Until the allotments are made the money subscribed remains in the name of the Issuing House, and is available to be lent to the market in the form of "Short Credit." The amounts thus available are on occasion very substantial, for States and Corporations, whose borrowings are reckoned in millions, as well as public companies, use the Issuing Houses as the means of approaching the public.

The operations of an Accepting House are more strictly of a Money Market character. They are neither borrowers nor lenders in the real sense of the terms. Their function is rather that of testing and hall-marking the bills which are the commodity in which the Money Market deals. The quality of a bill of exchange is determined by the financial standing of its acceptor. A bill bearing the name of a particular house whose credit stands high, is termed a first class bill, and is discountable at a lower rate than bills of lesser standing. Certain firms, for a commission, are willing to place their good name to a bill as acceptor. It is thus possible for a person who, though quite trustworthy, has no standing in the financial world, to obtain the use of a name of high repute on his bills of exchange. Needless to say all stages in the transaction are fully covered by the documents of the goods which are the subject of the bill.

Here is a typical transaction shorn of its trimmings. A grower overseas sells to a distributor here and draws a bill on him for the proceeds. The distributor, of no financial standing, arranges with an Accepting House to accept the bill against the bills of lading. The grower can now at once dispose of the bill for cash in the London Money Market, leaving the distributor to finish the bargain with the accepting house.

VI

Trade Influences

It will have now become apparent to the reader that the condition of the Money Market depends upon the plentifullness or scarcity of money at its disposal—which Bagehot called "the floating loan fund." This in turn depends upon the condition of trade; it also depends on the stock of gold at the Bank of England. Bad trade throughout the country tends to make money plentiful, and, therefore, "cheap" in the City; manufacturers and merchants have a portion of their money idle, because, with bad trade, it is not fully employed. When trade is brisk the condition of the money market is conversely affected. Manufacturers and merchants can employ all the money they can get to finance their operations, and so money becomes scarce in the City, or "dear."

When we read in the financial columns of the newspapers that "the market has to-day borrowed largely from the Bank of England," we shall understand then that the "market" signifies other banks (who keep their principal reserves on deposit at the Bank of England), the discount houses, bill brokers, and other financial institutions.
VII

The Bank Rate

One of the most important factors in the money market is the Bank Rate. The Bank Rate is the official minimum rate at which the Bank of England will discount bills of exchange, or lend money for short terms. The Bank rate is fixed and announced at the meeting of the Bank Court every Thursday morning. We shall refer presently to the weekly return issued on that day by the Bank of England giving a statement of its position. Meanwhile, the reader will have obtained from the foregoing pages some indication of the influences that go to regulate the Bank Rate, and the Money Market rate, which, of course, is a different thing.

The influences which affect the regulation of the Bank Rate are somewhat complex. The main object of the Bank of England in fixing the Bank Rate is to maintain its “reserves” at a safe level. What the nature of these reserves are, we shall see presently. We have seen how, in the ordinary course of their business, bill brokers, discount houses and the joint stock banks have at times to fall back on the resources of the Bank of England, and how this arises from the state of trade, from international financial operations and the state of foreign exchanges, which, apart from the ordinary course of international business, may on occasions be affected by political conditions.

As soon as it becomes apparent that adverse conditions are tending to imperil the safe level of the Bank of England’s reserve, the Bank rate is raised: the object being to curtail credit, and to attract money to the Bank. The joint stock banks follow the lead given by the Bank of England, and so, of course, do bill brokers and discount houses. A higher rate of interest is charged for discounting bills and for cash loans, and likewise a higher rate of interest is allowed by the banks for money placed on deposits. Thus, customers are tempted to increase their deposits, to restrict investments, and, it may be, to curtail their business operations rather than pay high rates of interest for loans, or overdrafts. The general tendency will be for money to be left with banks, and the Bank of England’s reserves will be restored.

These measures may not prove effective, and we may witness the strange anomaly of the Bank of England itself going into the market to borrow money it does not want. As Mr. Hartley Withers puts it: “To make its rate effective, the Bank of England often has to borrow money that it does not want, because, the market, supply of money being abundant, it knows that the bankers and brokers will continue to discount bills at rates which will keep the foreign exchanges against us, unless a curtailment of the supply of money is carried out. In other words, the credit-making machinery has worked so efficiently in the output of its product that the Bank of England, which has to be ready to meet the liabilities so created, has to take some of the output away from its holders, and pay them a rate for restricting their temptations to take bills at too low rates. This it does by going into the money market and borrowing. Any money that it borrows can only be got back from it by being borrowed again, and it, of course, only lends, at its head office, at the official rate, or $\frac{1}{2}$ per cent. above it.”

In this way, then, the Bank of England forces the pace by reducing the balances of the joint stock banks. These banks in turn call in their loans, and further restrict the operations of the bill brokers; if they do not, the discount rates are eventually forced up to a point at which they will become effective. The Bank of England may also, when there is a drain on its resources, buy gold bullion and issue notes against the bullion so held.
This is not an exhaustive description of all the factors that enter into the problem, but we have said sufficient by way of illustration to make the subject clear to the lay reader, who will realise in what way the supply of floating loanable capital is reduced when occasion demands it, and how the Bank of England brings it under its own control for the time being.

When the discount rate in foreign countries for bills of exchange is higher than the discount rate in this country, the tendency is for gold to pass from this country for employment in another country; conversely, the same thing applies, and we see shipments of gold to England. The danger of an outflow of gold from this country is, therefore, obviated when bills of exchange abroad become fewer, and as competition for them becomes keener the rate of exchange in favour of this country will rise.

**The Bank of England Weekly Return**

We need not burden our subject with the question of the gold reserve, nor attempt to give an elaborate explanation of the weekly return issued by the Bank of England, giving a statement of its position. It is examined with keen interest as a key to the condition of the Money Market as a whole. The return includes, on one side, the Bank’s stock of notes and of gold and silver coin, Government securities, and other securities held, against which is shown on the other side the Bank’s liabilities in respect of public and other deposits.

The amount of “reserve” shown by the weekly return is the main point of interest to the Money Market, the reserve being the notes and the gold and silver coin held by the Bank.

The “authorised note issue” of the Bank is £19,750,000, the greater part of which is backed by the debt of the Government to the Bank. The Bank may issue, in excess of the amount legally authorised, as many notes as may be required for the purposes of commerce, but this must be backed by the setting aside of gold bullion, or specie, in the possession of the Bank. The reserve, therefore, which we have mentioned, is the surplus of notes, gold and silver held by the Bank after setting aside the proper amount of gold as the backing for the note issue. The bigger this reserve, the stronger, of course, is the position of the Bank.

Gold is always coming into and leaving this country, and the problem is to see that more does not leave the country than is safe. It is the case, of course, that gold bullion is often shipped out of the country to liquidate debts, when high exchange rates make that a cheaper mode of settling debts than by bills of exchange. The factors which affect the Bank return issued each week are many and complicated, as we have explained.

The point the Money Market is concerned about is the Bank rate, that is, the rate fixed by the Bank of England as the minimum at which it will discount Bills of Exchange, or lend money for short terms; if the reserve we have referred to is low, and gold is being sent out of the country, the Bank rate is fairly certain to be raised; conversely, the Bank rate is likely to be lowered. The raising of the Bank rate is, as we have explained, the method of attracting money to the Bank and gold from abroad, where its value for the time being is less than in this country.
CHAPTER VII
INTERNATIONAL EXCHANGE

OR

'THE FINANCIAL MACHINERY
OF FOREIGN TRADE

BY

WILLIAM F. SPALDING


I

Foreign Exchange

Foreign exchange, or to use the more correct term, international exchange, is a subject upon which every business man should be informed. Expert knowledge is not requisite, but a working acquaintance with the principles of international exchange, so far as they concern the merchant, trader, or the man engaged in commerce, is very desirable. Many a man is appalled by the seeming mystery which appears to surround exchange; others come to grief over speculating in the buying and selling of foreign currencies, while some quit the problem by telling one that they are content to leave the settlement of exchange in the hands of the banker. They might do worse; yet in this branch of finance, a little learning is not a dangerous thing.

We propose, therefore, in this chapter, to give the reader just so much of the business of exchange of one currency into that of another as will enable him to deal intelligently with his banker or other financial agent.

Trading in Money

The problems that underlie the subject are many, but actually they are largely interwoven with the settlement of international indebtedness. In our banking chapter we have shown that much of a banker's business comprises operations that partake of the exchange of credit instruments representative of money. The banker, so to speak, acts in the domestic trade of the country as the intermediary for the transfer of money from one person to another, either by cheques, bills of exchange, or other documents. When he discounts a bill for a client, for example, it is a simple case of domestic exchange.
The bill of exchange is evidence of indebtedness; the banker in discounting an accepted bill, in effect, buys a debt from the seller.

In international exchange, the part that largely interests the business man is the paying of debts in the currency of a foreign country on the one hand, and, on the other hand, the selling of claims to money—evidence of indebtedness of foreign persons to him. Just as with the home commerce, so with international commerce, the banker is occupied in assisting his customers with payments which are to be made and received in connection with the operations of foreign centres. It is usually a question of degree; small operations in international exchange will frequently be carried on between debtor and creditor respectively, without much risk to either; larger transactions will call for the banker.

To be in a position to undertake foreign exchange business, a banker has to maintain accounts at various foreign centres; he accumulates a stock in trade—that is, the money of other countries. To him, in fact, this foreign money is really a commodity which he has the right to sell, or, when he wants to replenish his foreign balances, to buy.

The banker is therefore in the same position as a commission merchant, who, while buying and selling large quantities of commodities, keeps only a small stock on hand. Generally speaking, whenever any exchange is sold, the transaction is covered by a corresponding purchase. Similarly, when any exchange is bought, the transaction is covered by a corresponding sale. The profit to the bank in each case is the difference between the rate at which he buys or sells and the rate at which the transaction is off-set, all expenses being taken into consideration. The bank, as we have stated, is the intermediary, and it must keep in touch continually with the foreign exchange markets of the world so that it may be able to undertake economically the business which merchants and others require to be settled.

II

Remitting Money to Other Countries

The trend of international exchange quotations may be easily followed by diligent perusal of the day to day rates quoted in the morning newspapers. We will not burden the reader with the usual long list, since every man who has foreign currency to buy or to sell, will know quite well the particular currency in which he wishes to deal, whether it be francs, pesetas, dollars, taels, or piastres. For instance, if the reader wants to take a trip to Paris to interview French buyers or sellers of produce, he will know that it is francs he wants to buy in exchange for sterling, and if he has any of that erring unit in his possession when he gets back to London, francs it will be that he wants to sell for sterling, and so on.

There are various ways of remitting money to or from a foreign country. The main object is to get the money transferred in the cheapest possible way without the necessity of sending coin, which is at once both the most expensive and the most risky way of paying a debt.

Apart from the remittance of coin or bullion—a business that is best left in the hands of bankers or bullion brokers—money is transferred from one country to another in three main ways: by demand bills, that is bills of exchange payable on demand or at sight, by bills payable at so many days after date or sight, and by telegraphic transfers, or as they are sometimes called—cable transfers. We will assume for the moment that these are all banking instruments.

Let us first take the telegraphic transfer. This particular method of exchange forms a convenient basis
for explanation, because, payments in
the one country being made and
received in the other country on the
same day, the element of time is
eliminated, and we can dispense with
such disturbing factors as stamps,
interest, and accepting commissions.
In these days of inflation and de-
preciated currencies, transactions in
foreign exchange by means of tele-
graphic transfers are by far the most
frequent. In practice they are used
when it is desired to settle obligations
in foreign money immediately, and so
avoid the delays incidental to sending
remittances by mail. Fluctuations in
exchange are therefore avoided.

The telegraphic transfer reduced to
its simplest terms, is an order by,
say a bank in London to a bank in
a foreign country, delivered for im-
mediate transmission by cable. The
remitting banker orders the payment
of a specified amount to a third party
to the debit of the London bank.
Such orders to pay are sent in code
and the expense of cablegrams is
thus reduced to a minimum.

The Elementary Principles

A homely illustration will suffice.
We will take that ubiquitous person
the remittance man. His father in
London desires to send the prodigal
son, say the equivalent of £100 pay-
able in Montreal. He goes to a
London banker and asks him to trans-
fer the money to the Canadian centre
by telegram. The banker will quote
him the rate of the day, say $4.866
to £1. If poor pa is satisfied with
the rate, he will hand the banker
£100 and that gentleman will for-
with cable to his Montreal agent to
pay to the said prodigal son $486
(100 × 4.86). When the cable reaches
Montreal, the bank there will pay the
son on identification that sum, and
the youth may then continue to
dissipate his father's hard-earned
resources. So with commercial re-
mittances by telegraphic transfer—
immediately the money is paid here,
instructions will be sent by cable to
the foreign centre to pay the person
named the equivalent of the money
in foreign currency at the agreed
rate of exchange.

Suppose, on the other hand, it be
desired to send a demand draft to a
man in a foreign country; the remitter
will possibly purchase a banker's bill.
Here the element of time is intro-
duced. To take New York as our
objective; the time of the mail
steamer is usually reckoned as about
cight days. For that period, then, the
banker has the use of the client's
money, and he can afford to give a
slightly increased equivalent in dollars
in exchange for sterling, the differ-
ence being the interest at about the
ruling rate for the period it is esti-
imated the bill is en route. The buyer
will thus receive more American money
in exchange for each pound sterling.

This bank bill is merely a written
order from one bank, addressed to
another, instructing payment of the
agreed amount. It may be either
made out in favour of the person
purchasing it, in which case he will
derorse the bill over to the beneficiary,
by writing on the back, say, "Pay
Tom Jones or order," or, if it is
desired, the bill may be drawn payable
to the person to whom he wishes to
send it. With all these drafts prompt
advice is sent by the issuing bank to
the bank in the foreign country upon
which they are drawn, so that the
banker there may pay the amount
promptly on presentation, subject, of
course, to proper identification.

To come to the third bill, the one
payable at say three months after
sight, that is, payable three months
after it has been presented to the
person upon whom it is drawn and
accepted by him. Now here a further
element of time is introduced. The
person who receives such a bill has
to wait three months after the bill
has been accepted before he can get
his money. The purchaser will there-
fore expect to get it at such a rate
of exchange as, after allowing for
discounting (i.e. the charge for melt-
ing or turning the bill into ready
cash) in the market in which it is
to be paid, will put his creditor in no
worse position than he would have
been if a demand bill had been sent.
The banker selling such a bill has the
use of the customer’s money for three
months, plus the time the bill is en
route to the foreign centre, so he can
afford to give to the buyer more
dollars and cents, francs and centimes,
pesetas and centimos, or whatever
be the currency, for each pound
sterling paid over.

Commercial Exchange

Thus, in a general way, we sum-
mise what might be called the
elementary principles of foreign ex-
change. In point of fact, rates of
exchange may be taken to signify to
the commercial man the price in one
country of bills of exchange drawn on
other countries. They are bought
and sold, and are subject to the
ordinary laws of demand and supply
which govern the purchase and sale
of other commodities. They are,
indeed, commodities, the particular
class of commodity being some form
or other of debt.

There are, of course, other disturbing
factors, in addition to supply and
demand, such as depreciated curren-
cies, the over-issue of inconvertible
notes, and political unrest, which affect
exchange; but the ever-present prob-
lem for the merchant is how best to
get paid by his foreign debtor, and
how best to pay his creditor in the
money of his own country. Com-
mercial exchange relating to the
buying and selling of bills of exchange
and similar documents really forms
the basis of most international ex-
change operations with which the
business man is concerned; they
represent payments for imports and
exports of goods; consequently, it
is to that part of the subject we shall
now turn our attention.

In the old days before the Great
War we were in a position to force our
pound sterling currency on other
ations, and whilst the number of
their currency units required to pur-
chase sterling was comparatively
steady over a long period, the violent
fluctuations in exchange rates of
recent years have been such that the
foreigner is no longer content to be
completely dependent upon England
for his requirements.

He not only requires quotations in
the money of his own country for
goods the British exporter wishes to
sell, but also claims the right to
make payments in that currency, and
it behoves the British exporter to
adapt himself to the new conditions.
Assuming that prices, conditions of
sale, etc., have been agreed upon
with the foreign buyer, when the
British exporter is ready to ship his
goods, or very possibly before, he
will wish to sell the amount of foreign
currency represented by the bills of
exchange which he will draw upon
his foreign customer for the cost of
the goods.

III

The Services of the Bank

It is here the services of the banker
are in request. It just depends upon
whether the exporter is going to wait
until his shipment is ready before
settling exchange, or whether he will
take the more prudent course and
get exchange fixed some weeks or
months ahead, what rate he will get.

First, it should be noted that there
are two principal prices for foreign
money quoted in the exchange market;
that for “Spot” and that for “For-
ward” exchange. The “Spot” rate
is that for foreign money purchased
and paid for on the same day. The
“Forward” rate is that quoted for
the purchase or sale of foreign money
deliverable say, one, two, or three
months ahead.

Suppose the merchant desires to
VIEW IN "THE CITY," NEW YORK.

The illustration shows Broad Street, looking north, the Stock Exchange, and a corner of the Sub-Treasury in Wall Street.
escape exchange fluctuations, he can arrange to make an exchange contract with the banker, providing for the sale of so much foreign currency to the banker. He will interview that gentleman, explain just how much foreign currency he wishes to sell, and the banker, after satisfying himself that everything is in order, will arrange to purchase the currency "forward," and will give the exporter a written contract.

The working of this business was recently illustrated by the Westminster Bank Limited in one of its circulars. On the assumption that a merchant in London had agreed to sell at a price quoted in Dutch florins, it was shown that the bill would be drawn in that currency. The bill would be sent by the Westminster Bank to its correspondent in Amsterdam, the bank there would collect the exact amount in florins, the equivalent of which will be credited by the Westminster Bank to its client at the rate ruling on the day it receives advice of payment. But, to safeguard the merchant against fluctuations in exchange, the Westminster Bank can, if desired, arrange beforehand by means of "forward exchange," the rate at which the currency will be credited, the exporter being thus enabled to fix his price without fear of loss from exchange fluctuations. Further, if required, the foreign currency so collected may be held for his disposal in any way and at any time he may wish.

By waiting until the time of shipment, the exporter, of course, might make an additional profit (or perhaps net a smart loss), but in most cases when selling goods to a foreign importer, it is better for him to protect himself by entering into a forward contract with his banker. Therefore, in negotiating with a foreign buyer, it is to the merchant's advantage to ascertain the rate of exchange so that he can fix a satisfactory selling price, and when the sale is concluded and the exchange covered as on that day, the exporter knows exactly the sum of money in sterling he will get when his goods are ready for shipment. All he has then to do is to produce his bill of exchange, to which is attached the documents of title to the goods, hand these to the banker, and receive in exchange the value of his wares. He has sold exchange, the banker has bought it.

Helping the Importer

The importer in London can act somewhat similarly. Experience has shown, as one of the great exchange banks (the Guaranty Trust Co.) has emphasised, that when an importer buys merchandise from a foreign country in terms of the money of that country, it is generally advisable for him to enter into a forward contract with a bank to purchase the amount of foreign money involved, whether the shipment is to be made prompt or some weeks or months later. In this way the cost price of the merchandise may be immediately ascertained and the importer, knowing exactly what he has to pay, is protected against future fluctuations in exchange.

A practical example of the working of this business, again by the Westminster Bank, may be given. Let it be supposed that a merchant in London has contracted to buy goods from one in New York. The latter draws a bill and, with the required shipping documents attached, hands it to his own bank. It is assumed that this draft is sent by the American bank to the Westminster Bank. The latter institution, acting on behalf of the American bank, will, on receipt of the bill, send it along to the English importer, who, having satisfied himself that the invoice is correct, that the Bill of Lading is in such form that he will be able to obtain the goods without trouble, and that the insurance policy adequately covers the value of the consignment, will forthwith honour the draft.
As we have stated earlier, there is a growing tendency for foreigners to trade in and to demand payment in their own currency. We assume, then, that the draft received by the Westminster Bank is in dollars; the exact amount of such currency must be forthcoming before the relative documents will be surrendered. The English importer, in such a case, is more or less compelled to purchase a sufficient amount of dollars and cents with which to pay for the goods he wants, and, if he wishes to avoid loss in the exchange, he must give consideration to a favourable moment for buying.

If the currency is fairly steady, he can await the arrival of the documents and buy at the rate of the day of presentation, but if exchange is liable to violent fluctuations, as is so often the case, and he fears that the rate may go against him, he can contract with the Westminster Bank, when he first makes his purchase contract with the seller, for the purchase of the estimated amount of currency for “forward delivery.” This means that, no matter to what extent the rate of exchange has moved by the time the draft is presented to him, he will only pay the sterling equivalent at the agreed rate. The bank practically eliminates the exchange risk for him.

IV

“Spot” and “Forward” Rates

There is often a good deal of discussion about the differences in “spot” rates of exchange and “forward” rates, and when the merchant finds that if he is selling, say francs or dollars to a banker, and the latter quotes him a worse rate than, say the ruling “spot” quotation, he often gives vent to a growl and leaves the bank with the feeling that he has been mulcted by the banker. To dissipate this illusion, let us see how the banker arrives at his rates for “spot” and “forward.” The “spot” exchange is not difficult to understand—it depends to a large extent upon the cost at which the banker has been able to pick up the foreign money himself. He may, in fact usually does, buy a good deal of “spot” exchange on the home market.

Exchange Rates

He may, however, have to buy and make exchange available in a foreign market. That is to say, if John Smith has the right to $1000 in New York and he sells that right to the banker, to whom the balance is subsequently transferred, then the total cost to the banker of the purchase from Smith will govern, more or less, the “spot” rate at which he is willing to sell dollars. Demand and supply, however, again enter into the question—and a banker may be forced to sell at lower rates owing to larger supplies and competition from other sellers. With the “forward” rate, other factors intervene. Generally speaking, the rate at which the banker will buy or sell forward will depend upon the rate at which he expects to be able to cover his operations.

Apart from this, it also depends upon the cost of transferring money to a foreign country; but here is the important factor. Forward exchange is also influenced by the rates of interest ruling on two markets, home and foreign. With a low rate of interest for loanable funds for short periods in London and a high rate of interest, say in New York, the tendency will be for money to flow to the U.S.A. to be employed there in short term loans at the higher rate of interest ruling.

The higher the rate of interest in the foreign centre, the better will be the rate the banker can quote for forward exchange; or, in other words, if he is getting a good rate of interest for his money in New York, he can afford to part with it to the buyer
of forward exchange in the shape of a better exchange rate: in effect the banker surrenders part of the interest he is receiving to the client. Competition from other sellers of forward exchange again enters into the business. By force of competition a banker may be induced to cut his rates.

This, of course, is a very bald statement of a big problem, but sufficient has been said, we hope, to make it plain to the reader that the comparative cost to the banker of accumulating funds in a foreign centre, and the interest earned on them there, have much to do with rates of exchange which will be quoted for forward deals. The forward market in London is now so well organised that neither the exporter who wishes to settle in advance the sterling he is to receive for a certain amount of foreign money, nor the importer who desires to ascertain in advance the amount of foreign money which he can purchase with a given amount of sterling, has any excuse for taking exchange risks.

The operations of the importer seeking to protect himself by a forward purchase, and those of the exporter seeking to protect himself by a forward sale, each can be arranged through the banks, which act, not as speculators in exchange as is so often imagined, but as the clearing house for the exchange operations of their clients.

The business of international exchange does not entirely consist of the purchase and sale of foreign currencies, at least directly. Monetary receipts and payments arise from a multitude of causes and are effected in a multitude of different ways. So in any bank dealing in foreign exchange there will be a number of transactions, exchange of documents, credit instruments and the like, all making for one common end—the settlement of international indebtedness in its various forms.

\[ V \]

Eliminating Risks

Within the limits of this chapter we can deal but briefly with the principal features, that is, with those that affect the business man. To take the most common case, the merchant shipping goods to a foreign centre. Possibly he cannot get his money before the bill is paid. He can, however, usually arrange with a bank to take his bill with the relative shipping documents attached, bill of lading, invoice and insurance policy. The bank will send these to its foreign agent for collection and payment in due course. When the bill is paid the bank will hand the money to its client, less sundry small charges. The bill being in sterling, no question of exchange arises so far as the customer is concerned. That is the bank’s affair.

Where, however, the bill has had to be drawn in foreign currency, the amount is collected by the bank, who will pay over to the customer at the rate of exchange ruling on the day of payment. The exporter takes the risk of exchange fluctuations, though, as we have shown, he can circumvent them by selling exchange forward to the bank. There is another way. The exporter can often avoid exchange risks by insisting that the foreign importer himself arranges through the banker what is called a documentary credit.

Documentary Credits

If the banker in the foreign country is satisfied with the business and the importer there agrees to the terms and conditions incidental to the opening of the credit, that banker will advise his London correspondent that a credit for the value of the goods to be shipped is to be made available for the London exporter. The latter then can go merrily ahead, prepare his shipment, get ready the shipping documents and bill of exchange, and
when everything is in order, he goes to the bank in London, which will purchase the bill and forward it to the bank’s overseas correspondent, who in turn will get payment from the importer. By these documentary credits an obvious gap is bridged, for the intermediary banks safeguard both the interests of the exporter and those of the foreign importer, the former ensuring that payment will be made to him as soon as he has carried out his part of the contract and shipped the goods, the latter resting content in the knowledge that his money will be paid away only in exchange for the goods he has contracted to buy, or rather the documents of title thereto.

Of these credits there are many: some are confirmed, others unconfirmed; some are revocable, others irrevocable. Some provide for bills to be drawn upon and accepted by foreign importers, in others the banks themselves agree to accept the bills. The parties to the contract of sale will, of course, stipulate which credit it is they want to be available. An unconfirmed credit is, it should be noted, subject to cancellation, with or without notice, it is claimed. The value of an unconfirmed credit some bankers say is just what value you put on it! With an honest buyer there is little to fear, but with a slippery customer, an exporter might prepare his shipment and suddenly find this form of banking accommodation cancelled or revoked.

It should be noted, however, that the banks themselves are very chary about accepting instructions to cancel credits, and will not agree to revoke them without very good and sufficient reasons. A confirmed, or irrevocable credit, on the other hand, as the Westminster Bank points out, carries the issuing bank’s absolute guarantee of payment. It may not be cancelled without the consent of the beneficiary (i.e. the exporter), and this, provided he can fulfil his part of the contract, he is not likely to give.

All these credits have for their object the giving of power to the beneficiary to draw bills of exchange upon a named foreign importer or bank, and the said bills, when presented with the relating shipping documents, are purchased promptly. There is this to be noted, that, should the bills not be paid, the bank can usually claim back on the drawer of the bill for payment, plus all expenses incident to the dishonour of the bill, always provided, of course, that no clause or stipulation has been inserted in the credit or bill negating the drawer’s liability.

Credits may be revolving, that is to say, when the amount for which they are opened is exhausted, they become automatically re-available for bills to be drawn within the limits named. Where sterling bills are negotiated under the authority of letters of credit, there is, of course, no risk of exchange to the exporter, the burden is taken by the importer, and when the sterling bills arrive in the foreign country he will have to pay the equivalent in the money of his own country at the ruling rate of exchange.

Banks “Accept” Bills

There remains the cases where bankers themselves accept bills of exchange. This is a useful form of finance, since immediately the banker has accepted a bill drawn upon him, the merchant or other commercial man can then get it discounted on the market at the ruling rate of discount for bank bills, and has thus liquid funds immediately available for employment in his business. The method of working this business was recently summarised in a speech by the Chairman of Barclays Bank, Limited, Mr. F. C. Goodenough, and his remarks are well worth recording.

Briefly stated, he showed that it is the practice of the accepting houses, in return for a small commission, to guarantee the fulfilment of contracts,
by accepting bills drawn upon them by sellers of goods, instead of the sellers drawing direct upon the buyers.

For example, let us suppose that a merchant in the Argentine wishes to sell goods to a buyer in this country, but is not sufficiently acquainted with the standing and resources of the buyer to allow him credit. In these circumstances the seller would ask the buyer to make arrangements with a bank or accepting house for a credit, and the seller, instead of drawing his bill on the buyer, would draw upon the bank or accepting house. The bill would be accepted by one of those institutions, and the buyer would agree with the acceptor to provide the funds necessary to meet the bill at maturity.

In this case the seller is practically relieved of anxiety as to the due payment for the goods which he has sold, and, in addition, he would have no difficulty in financing the transaction because the accepting houses have built up a solid reputation and have inspired the confidence of banks, so that bills drawn under credits opened with them can be negotiated at any time and in any part of the world. Without some machinery of this kind, world trade, as we know it to-day, would be impossible.

The same principle holds good in the case of exports from this country. An exporter may receive an order from a trader abroad, but the foreign buyer may be quite unknown to him. The bank or accepting house, however, may be well acquainted with the foreign buyer's standing and resources and willing, therefore, to guarantee the transaction on his behalf by opening a credit at his or his banker's request. In this way, the exporter in this country can proceed with the manufacture and shipment of the goods, being fully satisfied that payment will be forthcoming in due course.

VI

The Discount Market

The discount market was also dealt with by Mr. Goodenough; he showed that the discount market is really a corollary to the accepting houses, and, we would add, to the foreign exchange market. It is the business of the discount market to buy and to sell bills of exchange. For this purpose the discount market employs its own capital, receives deposits from the public, borrows freely from the banks upon the security of bills, and, in case of need, re-discounts bills with the banks or with the Bank of England.

In this way there is ensured a free market for good bills of exchange in London, and the fact that there is no difficulty in converting sterling bills into cash in London when required, forms an important factor in their world-wide negotiability. There is constantly a flow of funds from foreign centres for investment in London bills, and these constitute important international exchange operations, which grease the wheels of commerce for our own business men.

There is, moreover, a further point. The rates charged for discounting the acceptances of the leading English financial houses are much lower than would be charged upon the acceptance of ordinary commercial trading houses, the difference in rates being usually sufficient to offset the cost of arranging acceptance facilities. The efficiency of the London financial organisation has made the sterling bill the most popular instrument of international trade, and the services of the acceptance and discount markets are utilised, not only for import and export transactions with this country, but also for direct trade between overseas countries themselves which never touches these shores.