

15/35  
36  
38

Trade China (ref)

15/39/39

left with Mr Hamilton  
at FE. Dir this  
4-55 pm  
ED. ch  
WS  
7/11

AIDE MÉMOIRE

A concrete scheme has now been worked out as regards a Chinese currency stabilisation fund. Mr. Cyril Rogers of the Bank of England is consulting the Chinese Government and the documents should by now have been put into proper legal shape. They will consist of:-

- (1) An agreement between the Hong Kong and Shanghai Bank, the Chartered Bank of India, Australia and China, the Bank of China and the Bank of Communications;
- (2) An agreement between the United Kingdom Treasury and the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China;
- (3) Undertakings to be given by the Chinese Government.

The inter-bank agreement will provide that the Bank of China and the Bank of Communications shall jointly subscribe five million pounds, the Hong Kong and Shanghai Bank three million pounds, and the Chartered Bank of India, Australia and China two million pounds to a stabilisation fund of ten million pounds to be used for exchange operations to prevent undue fluctuations in the sterling value of the Chinese dollar. The fund will be managed by a committee in Hong Kong composed of two members representing the Chinese Government banks, one representing the Hong Kong and Shanghai Bank, one the Chartered Bank of India, Australia and China and one nominated by the Chinese Government in agreement with

the/

*Sign*

INDEX

the United Kingdom Treasury and with the approval of the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China. It is intended that Mr. Cyril Rogers should be the Chinese Government nominee. The Chinese Government banks undertake to pay interest in sterling every six months to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China (the rate of interest is at present under discussion). The agreement is to remain in force for twelve months and may be renewed for further periods of six months provided the Chinese Government banks in agreement with the Chinese Government or the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China in agreement with the United Kingdom Treasury may at any time determine the agreement before due date. When the fund is wound up all assets are to be divided among the Banks in proportion to their original subscriptions.

The Treasury agreement provides that when the fund is wound up the Treasury will reimburse to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China any loss incurred by them and that the Treasury will guarantee payment of interest to the Hong Kong and Shanghai Bank and the Chartered Bank of India, Australia and China. The banks agree to supply full information to Mr. Rogers and to use their best endeavours to ensure the prudent and disinterested management of the fund. These two agreements would come into force as soon as the Treasury have received authority from Parliament. It will not be possible for legislation to be passed until just before

Easter/

Easter at the earliest (and if it cannot be passed before Easter it is not likely to be passed until the beginning of May owing to the Easter holidays.)

The Chinese Government would undertake that during the life of the fund their economic and monetary policy will be designed to maintain the stability of the dollar in terms of sterling; that the Chinese Government and its agencies will buy and sell foreign exchange through one of the banks represented on the above-mentioned Committee; and that any foreign exchange acquired in excess of immediate commitments will be paid over to the fund so long as its sterling assets are less than ten million pounds. Further, the Chinese Government would undertake to purchase British banking shares with any Chinese dollar assets at the rate of the day on which the fund is wound up unless some other arrangement is agreed between His Majesty's Government and the Chinese Government.

An announcement of the foregoing arrangement with the Chinese Government will be made in the United Kingdom Parliament at 3.45 p.m. (Greenwich mean time) on the 8th March.

BRITISH EMBASSY,

WASHINGTON, D. C.,

March 7th, 1939.