

## **NEW CENTRAL BANK FOR UNITED STATES AND BRITISH ZONES OF GERMANY**

Establishment of a new central bank, the Bank deutscher Laender (Bank of the German States), was announced on February 15, 1948, by the United States and British Military Governments in Germany. The new institution, which started operations on March 1 with headquarters in Frankfurt, is designed to coordinate the activities of the regional central banks which have been established in the German States included in the United States and British zones of occupation. Three such banks in the United States zone, those of Bavaria, Wuertemberg-Baden, and Hesse, have been in operation more than a year. A similar institution was established in Bremen after that area became a separate State of the American zone in 1947, and more recently four such banks were created in the States of the British zone, namely, North Rhine-Westphalia, Lower Saxony, Schleswig-Holstein, and Hamburg.

The new Central Bank's capital of 100 million Reichsmarks will be furnished by these State Central Banks, subscriptions being in proportion to the amount of their deposits on March 1, 1948. The presidents of the State Central Banks will be members of the Board of Directors of the new Bank.

The institution is under the authority of the Allied Bank Commission and its activities will be limited for the most part to transactions with the German Bizonal Economic Administration, with the State Central Banks, and with foreign central banks.

The Bank will rank equally with the several departments of the Bizonal Economic Administration.

The new Bank will not at present issue currency but is to acquire the power of note issue later at the discretion of the Allied authorities. The duty imposed upon it of promoting uniformity in banking policies in the several German States under its jurisdiction may be carried out by regulation of discount and interest rates and open market operations of the State Central Banks. The Bank is to fix minimum reserve requirements for these banks, and is also given authority over the regulations to be issued by the State Central Banks concerning the reserve requirements of commercial banks. Subject to any current legislation, the Bank is to regulate foreign exchange transactions and may hold foreign exchange for its own account or the account of others. It may serve as fiscal agent for the German Bizonal Economic Administration and, if requested, for the Joint Export-Import Agency, an instrument of the United States and British Military Governments. Following is the text of Law No. 60 of February 15 for the United States zone.

### **MILITARY GOVERNMENT, GERMANY--UNITED STATES AREA OF CONTROL LAW NO. 60--ESTABLISHMENT OF A BANK DEUTSCHER LAENDER**

WHEREAS the Military Governors and Commanders-in-Chief of the United States and British Zones have agreed to establish a Bank deutscher Laender in order to promote in the common interest the best use of the financial resources of the area served by the member Land Central Banks, to strengthen the currency and credit system and to coordinate the activities of the said Central Banks, and Whereas British Military Government is promulgating Ordinance No. 129 for the British Zone in order to give effect to this agreement,

Now IT IS HEREBY ORDERED AS FOLLOWS:

#### **ARTICLE I**

##### **LEGAL STATUS AND SEAT OF THE BANK**

1. A Bank deutscher Laender (hereinafter referred to as the "Bank") is hereby established as a juridical person under public law with its place of business and legal seat in Frankfurt.

2. Except as otherwise provided herein, the banking activities of the Bank shall be limited to transactions with member Land Central Banks, central banks of other German Laender and of foreign countries or their equivalent and the Bizonal Economic Administration.

3. Except as otherwise provided herein or by law, the Bank shall not be subject to the instructions of any political body or public nonjudicial agency.

4. The Bank shall not be subject to the provisions of the Reichsgesetz ueber das Kreditwesen (German Banking Act).

5. The Bank shall not maintain any branches or subsidiaries or affiliates.

## ARTICILE II RELATIONS TO ALLIED BANK COMMISSION

6. In determining the policies of the Bank, the Board of Directors shall be subject to such directions as may be issued by the Allied Bank Commission

7. The Bank shall submit to the Allied Bank -Commission such re-ports and information as the Commission may require.

## ARTICLE III FUNCTIONS AND BUSINESS ACTIVITIES

8. The Bank shall, on the direction of the appropriate Allied authorities, become the exclusive bank of issue and, subject to such direction, may issue and distribute bank notes and coins within the area of its competence.

9. The Bank shall promote the solvency and liquidity of the member Land "Central Banks.

10. The Bank shall establish common policies with respect to banking and shall ensure, as far as possible, the maximum uniformity in banking policies within the several Laender.

11. a. The Bank may issue directions for the general regulation of bank credit, including interest and discount rates and open market -operations of the member Land Central Banks.

b. Interest and discount rates may differ as among the member Land Central Banks.

c. The Bank may regulate the establishment of minimum reserve requirements for individual banks. Such regulations shall be issued by the member Land Central Banks.

12. The Bank shall assume and effect the entire settlement of bank balances resulting from 'transfers between the Laender. This settlement of balances shall be accomplished through the accounts of the member Land Central Banks with the Bank.

13. The Bank may engage in the following transactions with Central Banks:

a. Purchase and sell foreign exchange and gold, silver and platinum, subject to existing legal restrictions;

b. Accept deposits;

c. Rediscount bills of exchange;

d. Grant loans against:

(1) Bills of exchange,

(2) Treasury bills and securities issued by the Bizonal Economic Administration -or by any Land within the area of competence of the member Land Central Banks.

(3) Fixed-interest-bearing securities which any member Land Central Bank has purchased on the open market.  
e. Provide facilities for the safekeeping and custody of securities and valuables.

14. The Bank may:

a. Serve as fiscal agent, without charge, for the Bizonal Economic Administration, including acceptance of deposits, purchase and sale of treasury bills and fixed-interest-bearing securities, and provision of payment facilities and facilities for the safekeeping and custody of valuables and securities;  
b. Grant to the Bizonal Economic Administration short-term advances in anticipation of specific revenues, which advances shall not exceed" the amount of three hundred (300) million Reichsmarks, unless the Board of Directors, by a decision of three quarters of its members, raises this limit to five hundred (500) million Reichsmarks;  
c. Purchase and sell, in the open market, treasury bills issued by the Bizonal Economic Administration;  
d. Purchase and sell, in the open market, fixed-interest-bearing securities of the Bizonal Economic Administration.

15. a. The Bank shall give advice to the appropriate authorities With regard to foreign exchange policy.  
b. Subject to any legislation for the time being in force, the Bank shall regulate foreign exchange transactions and may hold "foreign exchange for its own account or the account of others for which purpose it may maintain accounts with foreign commercial banks.  
c. Foreign exchange as used in this paragraph shall mean means of payment and bills of exchange expressed in foreign currencies and balances with foreign banks.

16. The Bank, upon request, shall serve as fiscal agent for the Ioint Export-Import Agency and equivalent agencies in other German Laender.

17. The Bank shall regulate the collection, assembly and evaluation of monetary and -banking statistics and establish rules for their preparation by and through the member Land Central Banks.

18. Transactions, other than those specified in Sections 8 to 17 (inclusive) of this Article, may be undertaken by the Bank for internal administrative purposes only.

19. a. The Bank shall fix and publish interest and discount rates for its transactions with the member Land Central Banks.  
b. The Bank shall fix minimum reserve requirements for the member Land Central Banks and may require the deposit of such reserves with the Bank. Such reserve requirements shall not exceed 30 percentum of the total deposits with the member Land Central Banks.  
c. The Bank shall publish the interest rates for its transactions with the Bizonal Economic Administration.  
d. The Bank shall not pay interest on deposits.

#### ARTICLE IV ORGANIZATION

20. The policies of the Bank shall be determined by the Board of Directors and executed by the Board of Managers.

21. a. The Board of Directors shall consist of a Chairman, the President of the Board of Managers, and the Presidents of each of the member Land Central Banks.  
b. The Board of Directors shall arrive at its decisions by a simple majority of the votes cast, each member having a single vote. The vote of the Chairman shall be

decisive in event of a tie. The presence of more than one-half of all members of the Board of Directors shall be required to constitute a quorum.

c. The Deputy of the President of the Board of Managers shall be entitled to attend all meetings of the Board of Directors and take part in all discussions. He shall be entitled to vote however only when acting for and in the absence of the President of the Board of Managers.

d. The Chairman of the Board of Directors shall be elected by a simple majority of the members of the Board, excluding the Chairman in office and the President of the Board of Managers, who, for this purpose, shall not vote. His term of office shall be three (3) years. Re-election is permissible. The Chairman shall not be, during his term of office, a member of the Board of Directors or Board of Managers of any member Land Central Bank.

e. The President of the Board of Managers, or in his absence, his Deputy, shall be Vice-Chairman of the Board of Directors.

22. a. The emoluments of the Chairman of the Board of Directors and the members of the Board of Managers shall be fixed by contract between the person concerned and the Bank represented by the Board of Directors.

b. The by-laws of the Bank shall determine the terms of employment of its officers, employees and workers.

23. a. The Board of Directors shall not delegate the responsibility for the functions of the Bank enumerated in Article III

IV, Paragraph 22a, 24b and c

V, Paragraph 25b, 28a and b, and 29

VI, Paragraph 31a and b, and 34a

It may, however, in its discretion, and subject to its general supervision, delegate the discharge of these and any other functions.

b. When, in the opinion of the President of the Board of Managers, action is necessary and delay of action would be prejudicial to the fulfilment of the functions of the Bank, the Chairman may act for the Board of Directors. The Board of Directors should be convened immediately thereafter to approve or disapprove the measures taken.

24. a. The Board of Managers shall consist of a President, a Deputy and a number of Managers to be fixed by the by-laws.

b. The President of the Board of Managers and his Deputy shall be elected, and their terms of office fixed, by the Board of Directors, excluding the Chairman of the Board of Directors and the President of the Board of Managers who, for this purpose, shall not vote. The other members of the Board of Managers shall then be appointed by the full Board of Directors for such terms as may be determined by the Board of Directors. Re-election and reappointment are permissible.

c. Any member of the Board of Managers may be discharged at any time by the Board of Directors for important reasons which shall be stated in detail. Terms of employment may provide that such discharge shall be without prejudice to any financial benefits accruing thereunder.

d. The President of the Board of Managers shall be responsible to the Board of Directors for the execution of all decisions of the Board of Directors and for the general conduct of the business of the Bank.

e. The Board of Managers shall advise its President and assist him in carrying out the policies and decisions of the Board of Directors.

f. The Board of Managers shall represent the Bank in judicial proceedings and all other matters.

g. Any two members of the Board of Managers shall have the power to make declarations of legal intent (Willenserklärungen) on behalf of the Bank. Such declarations shall also be valid if made by agents who have been duly authorized by the Board of Managers.

h. For a declaration of legal intent (Willenserklärung) to be made to the Bank, it

shall suffice if such declaration is made to one member of the Board of Managers or to any other agent duly authorized by the Board of Managers.

#### ARTICLE V

#### CAPITAL, WEEKLY AND ANNUAL STATEMENTS, AND DISTRIBUTION OF Paorrrrs

25. a. The capital of the Bank shall be one hundred (100) million Reichsmarks. All Land Central Banks within the area in which this Law is effective shall subscribe to the capital of the Bank in proportion to the amounts of their desposits on the effective date of this Law.

b. The Board of Directors may within two years from the effective date of this Law, reapportion the capital participation.

26. The Board of Managers shall publish statements of the financial position of the Bank as at the 7th, 15th, 23rd and last day of each month. Such statements shall contain at least the following items:

##### a. Assets

Cash on hand

Foreign currencies and coins

Unrestricted claims on foreign debtors

Restricted claims on foreign debtors

Treasury bills of the Bizonal Economic Administration

Fixed-interest-bearing securities of the Bizonal Economic Administration Bills of exchange Collateral loans against

(1) Treasury bills of the Bizonal Economic Administration

(2) Treasury bills of the Laender

(3) Bills of exchange

(4) Securities of the Bizonal Economic Administration

(5) Securities of the Laender

(6) Other securities Cash advanced to the Bizonal Economic Administration

Other assets

##### b. Liabilzitics

Bank notes issued

Coins issued

Required balances of member Land Central Banks

Free balances of member Land Central Banks

Deposits of the Bizonal Economic Administration

Other deposits

Capital

Legal reserve fund

Contingent reserve

Other liabilities

27. The Board of 'Managers shall, furthermore, establish and publish consolidated statements of the financial position of the Bank and its member Land Central Banks as at the last day of each month.

28. a. The Board of Managers shall prepare an annual financial statement of the Bank within three months of the end of each calendar year. The Board of Directors shalli thereupon examine and, upon approval thereof, publish such financial statement and shall give release (Entlastung) to the Board of Managers accordingly. If such financial statement is not approved, the Board of Directors shall take appropriate action. An annual statement, approved by the Board of Directors, shall in any event be published not later than five months after the end of the calendar year covered thereby.

b. The annual financial statement and the books of the Bank shall" be audited by expert and independent auditors selected by- the Board of Directors before such statement is transmitted to the Board of Directors by the Board of Managers. Such

annual audit, however, shall not preclude any independent audit of any transaction which may be ordered at any time by the Allied Bank Commission.  
c. The fiscal year of the Bank shall be the calendar year.

29. Annual net profits, after the establishment of contingent reserves as determined by the Board of Directors, shall accrue as a Legal Reserve Fund. Such accrual, however, shall not exceed, in any one year, twenty percentum (20%) of the total amount of the capital of the Bank. Such Legal Reserve Fund shall not in the aggregate exceed the total amount of such capital. The remaining net profits shall be distributed to each member Land Central Bank in proportion to its capital participation.

#### ARTICLE VI GENERAL PROVISIONS

30. a. The Bank shall rank equally with the several Departments of the Bizonal Economic Administration.  
b. In respect of taxation, building construction, housing, and leasing of property, the Bank shall enjoy the same privileges as are accorded to the highest authorities in the area of competence of the Bank.

31. a. The Bank may require such reports and other information from the member Land Central Banks as it considers necessary for the discharge of its responsibilities.  
b. The Bank, in conjunction with the Bank supervisory authorities of the Laender, shall establish principles for the audit and certification of the accounts of the member Land Central Banks.  
c. The Bank shall not issue any list of securities eligible for collateral, or any list of credit ratings.

32. The provisions regarding the liability of the state for acts of public officials shall apply mutatis mutandis to the liability of the Bank.

33. a. The President of the Board of Managers may appoint notarial officials for the Bank. Such notarial officials shall possess the qualifications for the office of a judge and shall have an official seal.  
b. Such notarial officials shall be entitled to exercise the official functions of a notary in the conduct of the affairs of the Bank. The authority to act for and on behalf of the Bank may be proved by the certification of such notarial official.

34. a. The Board of Directors shall issue the by-laws of the Bank, the regulations directed to the member Land Central Banks, necessary to implement the provisions of this Law and the administrative regulations necessary for the conduct of the business of the Bank. Such by-laws and regulations shall require approval by the Allied Bank Commission and shall bind only the Bank and its member Land Central Banks.  
b. The by-laws and implementing regulations of the Bank, as well as any other public notices concerning the affairs of the Bank, shall be published in the official Gazette of the Bizonal Economic Administration.  
c. Unless otherwise expressly provided herein, the by-laws and regulations published, as provided in paragraph b of this Section, shall be deemed to be effective as from the date of issue of such Gazette.

#### ARTICLE VII PENALTIES

35. Any member of the Board of Directors or Board of Managers of the Bank who

knowingly conceals the financial conditions of the Bank or of the member Land Central Banks in any financial statement or report-required under the provisions of this Law, or who participates in causing a false entry to be made in, or a material entry to be omitted from, such financial statement or report shall be liable to imprisonment not exceeding five years or a fine not exceeding RM 100,000, or both, unless the offense committed is one for which a greater penalty is provided under any other law.

36. Any member of the Board of Directors or of the Board of Managers of the Bank or of any member Land Central Bank or any official of such bank who violates, aids or participates in the violation of any implementing regulations issued under the provisions of this Law, shall be liable to imprisonment not exceeding one year or a fine not exceeding RM 20,000, or both, unless the offense committed is one for which a greater penalty is provided under any other law. The regulation must expressly refer to the sanctions provided' in this paragraph.

37. Except as otherwise expressly provided, prosecutions arising under this Article shall be instituted in the Land courts.

#### ARTICLE VIII OTHER PROVISIONS

38. The German text of this Law shall be the official text and the provisions of Military Government Ordinance No. 3 as amended and of Article II, Section 5 of Military Government Law No. 4 as amended shall not apply.

39. This Law shall become effective within the Laender of Bavaria, Wuerttemberg-Baden, Hesse, and Bremen on 1 March 1948.