



BANK OF ENGLAND

Mr Callum Wilson
Via e-mail to:
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Please quote ref. V 98032 on all correspondence

Dear Mr Wilson

Thank you for your email of 9 June in which you ask the following questions under the Freedom of Information Act 2000 ('Fol Act') in relation to pre-1931 banknotes issued by the Bank of England (the 'Bank'). You ask:

'what exactly the bearer used to be promised. for example, pre 1931 Was, for arguments sake lets say, a £5 BoE promissory note worth 5 pounds in weight of gold? Pound for pound, is that why £1 is called a pound?

Also could you please clarify for me what exact legislation stopped this procedure, who passed it, when it was passed and if it is a United kingdom statute, act or legislation passed by government or a Bank of England exclusive legislation?'

Prior to 1931 the UK was on the gold standard, which meant that banknotes were backed by gold. The Bank's banknotes originally represented deposits of gold coin and bullion with the Bank. At that time, a member of the public could exchange a banknote for gold to the same value. For example, a £5 note could be exchanged for five gold coins (known as sovereigns).

The link with gold was finally broken in 1931 (see in particular The Currency and Bank Notes Act 1928 and The Gold Standard (Amendment) Act 1931) when the UK came off the gold standard and the note issue became entirely fiduciary – that is wholly backed by securities instead of gold. The responsibility for the UK's official reserves was transferred to HM Treasury, although the Bank acts as HM Treasury's agent in the day to day management of the Exchange Equalisation Account ('EEA') which is the government account in which the UK's official reserves are held.

You may also be interested in the Bank Charter Act 1844 and the Currency and Bank Notes Acts 1928 and 1954, which provided for the establishment of a distinct Department within the Bank of England - the Issue Department - for the issue of banknotes. This legislation also requires notes issued by the Bank to be backed by securities (the concept of securities was broadened by the Finance Act 1932) held in the Issue Department and confers legal tender status on Bank of England notes.

Section 1(4) of the Currency and Bank Notes Act 1954 also specifically provides that the *'holder of [Bank of England] bank notes of any denominations shall be entitled, on a demand made by him during office hours at the head office of the Bank of England or, in the case of notes payable also at some place other than the head office, either at the head office or at that other place, to receive in exchange for the notes bank notes of such lower denominations, being bank notes which for the time being are legal tender in the United Kingdom or in England and Wales, as he may specify.'*

All the legislation referred to above is United Kingdom legislation and was passed by the government of the day.

There are many good sources of literature that have been written about the Bank which cover this subject in greater depth, for example, '*The Bank of England 1891-1944*', by R S Sayers (1976).

The Bank's website has a section on banknotes, you may find the link below which provides a brief history of banknotes of particular interest:

<http://www.bankofengland.co.uk/banknotes/Pages/about/history.aspx>

I hope you find the above helpful.

Yours sincerely

A handwritten signature in cursive script that reads "Sandra Collins".

Sandra Collins
Information Compliance Team