

In normal circumstances advances shall be made on the 15th of the month for the month following, and shall correspond to the expenditure contemplated by the Trustee Board for the month in question in its request.

Article 9. — Within the limits specified in the above provisions, the Trustee Board shall incur expenditure and effect payments. It shall have the custody and administration of the funds paid by the Secretary-General into its banking account.

The Trustee Board shall register all commitments of expenditure and shall institute such accounting system as will enable it to draw up the statements provided for in Chapter IV below.

IV. — *Accountancy and Audit of the Accounts.*

Article 10. — The Trustee Board shall draw up and submit to the Secretary-General at the end of each month, quarter and year, in respect of such month, quarter or year, a statement showing:

(a) *As regards income*, the payments made from Geneva, bank interest, security taken on deposit and any other income;

(b) *As regards expenditure*, (1) the original budget credits; (2) credits resulting from transfers; (3) expenditure incurred, including payments; (4) the difference between credits entered under (2) on the one hand, and expenditure incurred or payments made entered under (3) on the other hand; (5) the payments made during the period in question. As an annex to the table of expenditure there shall be shown:

(i) The list of advances outstanding for settlement, indicating the corresponding chapters in the budget;

(ii) The amount of security refunded.

Article 11. — There shall be attached to the quarterly statements all the relevant documentary evidence, including invoices, schedules, counterfoils, etc.

The quarterly statements shall be audited by the Treasury of the League of Nations within one month from the date of their receipt by the Secretary-General.

Article 12. — The annual statements shall be subjected to comprehensive audit by the Auditor of the League of Nations in accordance with the rules regarding the financial administration of the League. They shall then be communicated by the Secretary-General to the Committee together with the Auditor's report.

V. — *General Provisions.*

Article 13. — As regards financial questions for the settlement of which no specific provision is made in these Regulations, the Trustee Board shall be guided by the Regulations concerning the administration of the finances of the League of Nations and by the relevant provisions of the administrative rules of the Secretariat. Any question which cannot be settled in this manner shall be submitted to the Secretary-General, who will refer it to the Committee if necessary.

Article 14. — The present Regulations may be amended and completed by the Committee in agreement with the Secretary-General and the Trustee Board.

ANNEX 1679.

C.437.1937.II.A.

FREE CITY OF DANZIG: MUNICIPALITY OF DANZIG 7% MORTGAGE
LOAN OF 1925 AND FREE CITY OF DANZIG 6½% (TOBACCO MONOPOLY)
STATE LOAN OF 1927.

The Secretary-General has the honour to communicate to the Council the following correspondence addressed to him by the Trustee for the Municipality and State Loans of the Free City of Danzig:

I. Letter, dated September 18th, 1937, regarding the Municipality of Danzig 7% Mortgage Loan of 1925 (with memorandum annexed).

II. Letter, dated September 18th, 1937, regarding the Free City of Danzig 6½% (Tobacco Monopoly) State Loan (with memorandum annexed).

Appendix: Correspondence between the Trustee and the Bank of Danzig.

I. LETTER, DATED SEPTEMBER 18TH, 1937, FROM THE TRUSTEE FOR THE MUNICIPALITY AND STATE LOANS OF THE FREE CITY OF DANZIG TO THE SECRETARY-GENERAL.

September 18th, 1937.

Re: *Municipality of Danzig 7% Mortgage Loan of 1925.*

I request you to bring to the notice of the Council the following:

In my capacity of Trustee appointed by the Council of the League of Nations for the above-mentioned loan, it is my duty, according to Article 32 of the General Bond, to bring the following to the Council's notice.

My representative, the Bank of Danzig, by a letter, dated September 2nd, 1937, informed me that the Senate of the Free City of Danzig has signed a memorandum in regard to the above-mentioned loan, dated August 27th, 1937. I was asked to recognise in every respect this memorandum which, together with the General Bond, will govern the loan service in future.

Shortly thereafter, I received the above-mentioned memorandum signed for and on behalf of the Municipality of Danzig by the President of the Senate, M. Greiser, and by the Finance Senator, Dr. Hoppenrath, which contains extremely important modifications of the terms of the General Bond and no provision for the service of bonds, the holders of which do not accept the present offer.

In a letter, dated September 6th, 1937, I have communicated to the Bank of Danzig that I could not recognise these modifications and had to insist on the Municipality's living up to their obligations as embodied in the General Bond, which communication was transmitted by the Bank of Danzig to the Municipality.

By a letter from the Finance Senator of Danzig, dated September 14th, 1937, and signed by the Vice-President of the Senate, M. Huth, I was informed that the Municipality of Danzig in spite of my protest intended to carry out the arrangements embodied in the memorandum, and even were I to proceed in accordance with Article 32 of the General Bond, the Municipality did not intend to revoke its decision; consequently, the Municipality is acting contrary to the terms of the General Bond, thereby committing a breach of those terms, which the Municipality refuses to remedy.

Furthermore, in its letter of September 14th, 1937, the Bank of Danzig informs me that the Municipality of Danzig has already paid in accordance with the conditions of the memorandum of August 27th, 1937, Article 2, the required first instalment of the loan service for the half-year September 1st, 1937–March 1st, 1938.

Hence, the event provided for in Article 32 of the General Bond has now become a fact. In conformity with this article, I am bound to bring this breach of the terms of the General Bond to the notice of the Council of the League of Nations, in order that the Council may decide whether to waive the breach and thus accept the arrangements embodied in the aforesaid memorandum, or not to waive the breach. In the latter case, principal and interest would become at once payable, and, unless I should have heard from the Bankers within ten days that such principal and interest have been paid, I shall have to proceed to execution for the payment of the said principal and interest, in respect of such of the mortgaged security as I shall deem necessary.

From the conditions of the General Bond, it appears in my judgment, which is based on counsel's advice, that it will be my duty to act in accordance with the decision the Council will take.

I therefore beg to submit that the Council should communicate to me and to the Municipality of Danzig the decision the Council may arrive at.

I enclose copy of the Memorandum, dated August 27th, 1937, of my letter to the Bank of Danzig, dated September 6th, 1937, and of the Bank's letters of September 2nd and 14th, 1937, as well as copy of the Finance Senator's letter of September 14th, 1937.

(Signed) C. E. TER MEULEN.

Municipality of Danzig 7% Mortgage Loan of 1925: Memorandum concerning Changes consequent upon Modifications of the Original Conditions of Issue proposed on behalf of the Municipality of Danzig and recommended for the Bondholders' Acceptance by the League Loans Committee.

1. Interest on the bonds of the loan will be payable, but only in respect of bonds which have from time to time been enfaced in the form annexed¹ to this memorandum, on March 1st and September 1st in each year, at the rate of 5% per annum commencing with the coupon due March 1st, 1938.

2. For the purposes of the payment of interest on and the redemption of the loan, the Municipality will, in each half-year, provide a fixed semi-annual sum. The sums to be provided in respect of the half-years ending March 1st, 1938, and September 1st, 1938, will be £16,346 5s.

¹ The annex is not reproduced in the present document.

and £32,944 15s. respectively, and thereafter such semi-annual sum will be of the amount of £37,740 4s. 2d. So much of the said sums as is not required for paying the interest due in respect of the half-year will be applied in redemption.

3. Sums to be applied in the redemption of the loan as aforesaid will be applied by or at the order of the Municipality in the redemption of bonds of the loan which have been enfaced as mentioned above by purchases or drawings in accordance, so far as they are applicable, with the provisions as to redemption in the General Bond securing the loan (in this memorandum referred to as "the General Bond") except that purchases shall be effected not later than the months of January and July respectively and that bonds purchased otherwise than through the Bankers shall be surrendered to the Bankers for cancellation not later than the last day of January and July respectively and that drawings when necessary shall be made in the first fortnight of February and August respectively.

4. The above machinery provides for redemption of the whole of the bonds of the loan (provided they have been enfaced as mentioned above) by March 1st, 1950, or earlier, dependent upon the price at which bonds are purchased for redemption. The date for payment specified in the bonds of the loan will be postponed to March 1st, 1950.

5. With a view to providing the semi-annual sums referred to above and all other moneys payable by the Municipality pursuant to this memorandum and, so far as they apply, to the provisions of the General Bond, the Municipality will forthwith procure that sums equal to the whole gross receipts from the undertakings charged as security for the loan pursuant to the General Bond shall be credited as and when such gross receipts are received by the Municipality to a new Special Account which the Municipality will cause to be opened in its books and which account will at all times be open for inspection to the Trustee or any person authorised by the Trustee for that purpose. The Municipality will, in each half-year, transfer in sterling from such Special Account to the Bank of Danzig fortnightly a one-thirteenth part of the semi-annual sum required to be provided for the service of the loan as set out above, and the Municipality will cause the Bank of Danzig once every four weeks to remit to the British Overseas Bank, Ltd., in London, for account and risk of the Municipality the moneys so transferred to the Bank of Danzig during the two preceding fortnights.

6. Any interest payable to the paying agents and others pursuant to Clause 31 of the General Bond will, as from September 2nd, 1937, be calculated at the rate of 5% per annum.

7. The charge on the gross receipts of the undertakings specified in the General Bond will remain binding on the Municipality but the payment of such receipts to the Central Account pursuant to the provisions of the General Bond will be discontinued so long as payments are made in accordance with the terms of this memorandum. All the provisions of the General Bond, except in so far as they are inconsistent with the terms of this memorandum, will continue to be binding upon the Municipality and of full force and effect.

8. In the event of any default occurring in the future service of the bonds of the loan pursuant to this Memorandum or, so far as they are applicable, the provisions of the General Bond, the modifications specified in this Memorandum will immediately cease to be operative and the conditions for payment of interest and redemption specified in the General Bond will again become fully operative.

Dated this 27th day of August, 1937.

For and on behalf of the Municipality of Danzig:

(Signed) GREISER.

(Signed) Dr. HOPPENRATH.

II. LETTER, DATED SEPTEMBER 18TH, 1937, FROM THE TRUSTEE OF THE MUNICIPALITY AND STATE LOANS OF THE FREE CITY OF DANZIG TO THE SECRETARY-GENERAL.

September 18th, 1937.

Re: *Free City of Danzig 6½% (Tobacco Monopoly) State Loan of 1927.*

I request you to bring to the notice of the Council the following:

In my capacity of Trustee appointed by the Council of the League of Nations for the above-mentioned loan, it is my duty, according to Article 30 of the General Bond, to bring the following to the Council's notice.

My representative, the Bank of Danzig, by a letter, dated September 2nd, 1937, informed me that the Senate of the Free City of Danzig has signed a memorandum in regard to the above-mentioned loan, dated August 27th, 1937. I was asked to recognise in every respect this memorandum, which, together with the General Bond, will govern the loan service in future.

Shortly thereafter, I received the above-mentioned memorandum, signed for and on behalf of the Free City of Danzig by the President of the Senate, M. Greiser, and by the Finance Senator, Dr. Hoppenrath, which contains extremely important modifications of the terms of the General Bond and no provision for the service of bonds, the holders of which do not accept the present offer.

In a letter, dated September 6th, 1937, I have communicated to the Bank of Danzig that I could not recognise these modifications and had to insist on the State's living up to its obligations as embodied in the General Bond, which communication was transmitted by the Bank of Danzig to the State.

By a letter from the Finance Senator of Danzig, dated September 14th, 1937, and signed by the Vice-President of the Senate, M. Huth, I was informed that the State in spite of my protest intended to carry out the arrangements embodied in the memorandum, and even were I to proceed in accordance with Article 30 of the General Bond, the State did not intend to revoke its decision; consequently, the State is acting contrary to the terms of the General Bond, thereby committing a breach of those terms, which the State refuses to remedy.

Hence, the event provided for in Article 30 of the General Bond has now become a fact. In conformity with this article, I am bound to bring this breach of the terms of the General Bond to the notice of the Council of the League of Nations, in order that the Council may decide whether to waive the breach and thus accept the arrangements embodied in the aforesaid memorandum, or not to waive the breach. In the latter case, principal and interest would become at once payable, and, unless I should have heard from the Bankers within ten days that such principal and interest have been paid, I shall have to proceed to execution for the payment of the said principal and interest, in respect of such of the security as I shall deem necessary.

From the conditions of the General Bond, it appears in my judgment, which is based on counsel's advice, that it will be my duty to act in accordance with the decision the Council will take.

I therefore beg to submit that the Council should communicate to me and to the State of Danzig the decision the Council may arrive at.

I enclose copy of the memorandum, dated August 27th, 1937, of my letter to the Bank of Danzig, dated September 6th, 1937, and of the Bank's letters of September 2nd and 14th, 1937, as well as copy of the Finance Senator's letter of September 14th, 1937.

(Signed) C. E. TER MEULEN.

Free City of Danzig 6½% (Tobacco Monopoly) State Loan of 1927: Memorandum concerning Changes consequent upon Modifications of the Original Conditions of Issue proposed by the Senate of the Free City of Danzig and recommended for the Bondholders' Acceptance by the League Loans Committee.

1. Interest on the bonds of the loan will be payable, but only in respect of bonds which have from time to time been enfaced in the form annexed to this memorandum,¹ on April 1st and October 1st in each year at the rate of 4½% per annum commencing with the coupon due April 1st, 1938.

2. For the purposes of the payment of interest on and the redemption of the loan, the Free City will, in each half-year, provide a semi-annual sum. From and including the half-year ending April 1st, 1938, such semi-annual sums will be the aggregate of the amounts required for the payment of interest as set out in the third column of Annex II to this memorandum¹ together with the amounts required to redeem the nominal amounts of bonds specified in the fourth column of that annex.

3. Sums to be applied in redemption of the loan as aforesaid will be applied at the order of the Free City in redemption of bonds of the loan which have been enfaced as mentioned above by purchases or drawings in accordance, so far as they are applicable, with the provisions as to redemption in the General Bond dated the 29th day of June, 1927, securing the loan (in this memorandum referred to as "The General Bond") except that purchases shall be effected not later than February 28th and August 31st respectively, and that bonds purchased otherwise than through the Bankers shall be surrendered to the Bankers for cancellation not later than the last day of February and August respectively, and that drawings when necessary shall be made in the first fortnight of March and September respectively.

4. The above machinery provides for redemption of the whole of the bonds of the loan (provided they have been enfaced as mentioned above) by October 1st, 1952. The date for payment specified in the bonds of the loan will be postponed to October 1st, 1952.

5. With a view to providing the semi-annual sums referred to above and all other moneys payable by the Free City pursuant to this memorandum and, so far as they are applicable, to the

¹ These annexes are not reproduced in the present document.

provisions of the General Bond, the Free City will forthwith procure that sums equal to the whole of the gross receipts from the revenues charged as security for the loan pursuant to the General Bond shall be credited as and when such gross receipts are received by the Free City to a new Special Account which the Free City will cause to be opened in the books of the Treasury (*Staatshauptkasse*) and which account will at all times be open for inspection to the Trustee or any person authorised by the Trustee for that purpose. The Free City will, in each half-year, transfer from the said new Special Account to the Bank of Danzig not later than the last day of each month during the currency of the loan one-sixth part of the maximum total amount required to meet in sterling the service of the loan both as to principal and interest during such half-year, and will instruct the Bank of Danzig to convert the sums so transferred to it into sterling forthwith and to credit such sterling amounts to an account to be opened by the Bank of Danzig in the name of the Free City. As soon in any month as the Bank of Danzig shall notify the Free City that (after taking into account any bonds or matured coupons which the Free City is entitled to credit under the provisions of the General Bond) it holds in its hands available for remittance to the paying agents a sterling sum equal to the transfer due in respect of such month any balance standing to the credit of the above-mentioned new Special Account in the books of the Treasury (*Staatshauptkasse*) and any further sums credited to such account during the currency of such month will be at the free disposal of the Free City. The Free City will cause the Bank of Danzig to remit in sterling such monthly instalments to the British Overseas Bank, Limited, in London, on the last day of such month for the account and at the risk of the Free City.

6. Any interest payable to the paying agents and others pursuant to Clause 29 of the General Bond will as from and after October 2nd, 1937, be calculated at the rate of $4\frac{1}{2}\%$ per annum.

7. The charge on the gross receipts of the revenues specified in the General Bond will remain binding on the Free City, but the payment of such receipts to the Tobacco Monopoly Account and the Excise Account in the name of the Trustee pursuant to the provisions of the General Bond will be discontinued as long as payments are made in accordance with the terms of this Memorandum. All the provisions of the General Bond, except in so far as they are inconsistent with the terms of this Memorandum, will continue to be binding upon the Free City and of full force and effect.

8. In the event of any default occurring in the future service of the bonds of the loan pursuant to this memorandum, or, so far as they are applicable, the provisions of the General Bond, the modifications specified in this memorandum will immediately cease to be operative and the conditions for payment of interest and redemption specified in the General Bond will again become fully operative.

Dated this 27th day of August 1937.

For and on behalf of the Free City of Danzig:

(Signed) GREISER.

(Signed) Dr. HOPPENRATH.

Appendix.

To M. C. E. ter Meulen, Amsterdam.

Danzig, September 2nd, 1937.

With reference to your letters of July 30th and August 25th, we have the honour to give you the following information, Dr. Schäfer having meanwhile returned from a journey:

The statement regarding the monthly payment on the Tobacco Monopoly Loan has now been sent to you, so that this matter may be regarded as settled.

As regards the question of the observance of the General Bonds of the two League loans, the Senate of the Free City of Danzig, after negotiations with the Secretary of the League Loans Committee, London, signed a memorandum on August 27th, 1937, regarding the Municipal Loan of 1925 and another regarding the Tobacco Monopoly Loan of 1927. The Secretary of the League Loans Committee informed the Senate that these memoranda had been communicated to you by the Committee. We therefore assume that you are acquainted with the contents of the two memoranda, the texts of which still hold good. The memoranda satisfy both the League Loans Committee and the requirements of the London Stock Exchange and the London paying agents.

We would request you to inform us whether you too accept the contents of these memoranda which, together with the General Bonds, will govern the future service of the loan, and await your reply.

Bank of Danzig:

(Signed) Dr. SCHÄFER.
DREWS.

To the Bank of Danzig.

September 6th, 1937.

I thank you for your letter of September 2nd last, from which I learn that, on August 27th, 1937, after negotiations with the Secretary of the League Loans Committee, London, the Senate of the Free City of Danzig has signed two memoranda, which I have since received.

You mention that these memoranda satisfy the League Loans Committee as well as the requirements of the London Stock Exchange and the London paying agents. Unfortunately, that Committee, the London Stock Exchange and the paying agents do not represent the bondholders whose rights are affected, and a debtor cannot be relieved of his obligations to the creditors without the latter's consent.

The General Bond does not authorise the Trustee to change the conditions of the General Bond on his own authority to the detriment of the bondholders. It prescribes what action he is to take if the debtors do not punctually fulfil their obligations. Should these obligations not be fulfilled, I must take the course prescribed for me in the General Bond. I therefore regret that I cannot accept the above-mentioned memoranda, and must insist on the Free City of Danzig and the Municipality of Danzig fulfilling the obligations entered into by them in accordance with the General Bond.

I request you to inform the Senate and the Municipality of the view I take in the matter as stated above.

(Signed) C. E. TER MEULEN.

To M. C. E. ter Meulen, Amsterdam.

Danzig, September 14th, 1937.

With reference to your letter of September 6th, we are sending you the original of the letter we have to-day received from the Senate and the Municipality of Danzig, from which it will be seen that they are not prepared to fulfil the provisions of the two original loan contracts as regards interest and redemption payments any longer, but propose in future to act in accordance with the two memoranda with which you are acquainted. The letter further shows that, for this reason, it is superfluous to observe the time-limit of fourteen days laid down in Numbers 32 and 30 of the General Bond, should you consider it necessary to refer the matter to the Council of the League of Nations.

We would further inform you that the Municipality of Danzig has already paid the instalments for the service of the Municipal Loan due for the next half-year (September 1st to March 1st) on the basis of the new provisions of the Memorandum (No. 2) of August 27th, 1937.

Bank of Danzig:

(Signed) Dr. SCHÄFER.
DREWS.

Annex.

THE SENATOR IN CHARGE
OF FINANCE.

Danzig, September 14th, 1937.

To the Bank of Danzig.

The Senate of the Free City of Danzig and the Municipality of Danzig have noted the point of view of the Trustee of the two League loans, communicated to them in the Bank of Danzig's letter of September 7th, regarding the memoranda signed on August 27th, 1937, by the Senate of the Free City of Danzig. As the negotiations regarding a new settlement of the interest and redemption payments were finally settled as far as the Senate is concerned by the signature of the two memoranda, it proposes to make interest and redemption payments on the two loans on the basis of the provisions of these two memoranda, which, together with the General Bonds, govern the future service of the loans. The Senate of the Free City of Danzig and the Municipality of Danzig can therefore only repeat the point of view stated in their letter of July 20th—namely, that they leave it to the Trustee to take such steps as he may consider necessary in pursuance of the provisions of the two General Bonds.

We would point out that the Senate and the Municipality will not change their attitude even if the Trustee adopts the procedure laid down in No. 32 of the General Bond of the Municipal Loan of 1925 and No. 30 of the General Bond of the State (Tobacco Monopoly) Loan of 1927.

For the rest, we would refer you to the recently published fifth annual report of the League Loans Committee, London, and to the remarks made by that Committee thereat.

For the Senate:

(Signed) HUTH.