

AGREEMENT dated as of the 1st day of April, 1941, at the City of Washington, District of Columbia, between the National Government of the Republic of China (hereinafter called China), the Central Bank of China (hereinafter called the Bank), and the Secretary of the Treasury of the United States (hereinafter called the Secretary).

WHEREAS, the monetary and financial cooperation of the United States of America and the Republic of China, and the stabilization of the United States dollar - Chinese yuan rate of exchange are important factors in promoting trade and in fostering the welfare and friendly relationships of the two countries.

NOW, THEREFORE, in order to further such objectives and in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. (a) China shall establish a fund to be known as the United States Dollar-Chinese Yuan Stabilization Fund of China (hereinafter called the "Fund") for the purpose of stabilizing the exchange value of the Chinese yuan with respect to the United States dollar. China shall cause to be transferred to the Fund by Chinese governmental banks an amount of at least United States \$20,000,000, and such other assets as may be acquired by China and/or the Bank from the Secretary pursuant to this Agreement. China and/or the Bank may from time to time transfer other assets to the Fund. All of the assets transferred to the Fund shall be used exclusively for the purpose of stabilizing the exchange value of the Chinese yuan with respect to the United States dollar. As used in this Agreement the terms "Chinese yuan" and "yuan" shall be construed to mean the standard unit of currency of the National Government of the Republic of China.

(b) China shall establish and maintain a Stabilization Board of China (hereinafter called the Board), and shall vest in such Board full and complete power to manage and control the Fund for the purpose of stabilizing the exchange value of the Chinese yuan with respect to the United States dollar. Such Board may also be authorized by China to manage and control any other stabilization funds in which China or the Bank has an interest. The Board shall consist of five members, all of whom shall be appointed by China and at least three of whom shall be nationals of China. China shall designate one of such nationals of China as Chairman of the Board. At the request and upon the recommendation of the Secretary, China shall appoint at least one member of the Board who shall be a citizen of the United States; shall be permitted to serve so long as desired by the Secretary; shall be removed from office by China upon the request of the Secretary; and shall be permitted to keep the Secretary fully and currently informed of all activities of the Board effected or contemplated. If a member so appointed upon the recommendation of the Secretary dies, resigns, is removed or otherwise vacates his office his successor shall be appointed by China at the request and upon the recommendation of the Secretary on the same terms and conditions as were applicable to such member. Each member of the Board shall be authorized to appoint any person of his own nationality to be an alternate member of the Board in his absence, and the person so appointed, while he holds office as an alternate member, shall be entitled, in the absence of the member appointing him, to attend and vote at meetings of the Board and to exercise the powers of that member. An alternate member shall cease to hold office if the member appointing him removes him from office or if the member

appointing him, himself ceases to be a member of the Board. The Board shall have authority to determine its own procedure and its place or places of operation including, without limitation of the foregoing, authority to determine what constitutes a quorum for a meeting, provided that at least four members of the Board shall be necessary to constitute a quorum, and to take action by a poll of the members of the Board, without a meeting, on questions submitted to them by, or at the request of, the Chairman, provided that such action shall have been approved by such number of members as are necessary to constitute a quorum. Upon any vacancy arising on the Board, China shall forthwith fill the vacancy but the Board may act notwithstanding such vacancy. China and the Bank shall cause the Board and the Fund to perform all obligations and discharge all liabilities, and otherwise act in all respects in accordance with the terms and conditions of this Agreement.

(c) To enable the Board to carry out the purpose of the Fund, China shall vest in the Board power and authority to deal for the account of the Fund in gold and foreign exchange and such other instruments of credit and securities as the Board may deem necessary; and the Board shall be authorized and empowered by China to take such action directly or through such persons or agencies as may be designated by the Board. The Board shall also be authorized and empowered by China to invest and reinvest from time to time in direct obligations of the Government of the United States any United States dollars in the Fund which, in the opinion of the Board, are not currently required for stabilization purposes, and all such securities shall be held by the Federal Reserve Bank of New York as fiscal agent of the United States (hereinafter in its capacity as fiscal agent of the

United States called the Federal) in an account in the name of "United States Dollar - Chinese Yuan Stabilization Fund of China, Special Securities Account". All such investments and reinvestments in obligations of the Government of the United States, including sales of any such securities, shall only be made through and with the approval of the Secretary or the Federal and the proceeds of all sales and investments and all earnings and interest accruing thereon or as a result of the operations of the Fund shall be paid into the Fund and be available for the purposes of the Fund. Unless otherwise approved by a quorum of the members of the Board, all Chinese yuan acquired by the Fund shall be held in Chinese legal tender money and in no other form; shall be deposited in such place or places as the Board may direct in a separate account or accounts; and shall be available for satisfaction of sales of Chinese yuan made on behalf of the Fund and for expenses incurred in operating the Fund and for no other purposes.

(d) At the end of each month the Board shall prepare a statement of the operations of the Fund during that month, and a statement of the position of the Fund, and every three months shall prepare a balance sheet and a report showing the policy of the Board and the operations of the Fund. Copies of such statements, reports and balance sheets as well as any statements, reports and balance sheets of any other funds managed or operated by the Board shall be furnished to China and the Secretary. China, the Bank, and the Board will in every way assist any American member of the Board in obtaining and furnishing to the Secretary complete information with respect to the Fund and its assets, any other funds managed or operated by the Board and their assets, and all activities of the Board, effected or

contemplated. In this connection, China, the Bank, and the Board will give or cause to be given to such member all necessary facilities and information.

(e) The Board may pay, out of the assets of the Fund, salaries, bank commissions, brokerage charges, cable charges, and other expenses incurred by the Board in operating the Fund.

(f) Except as specifically provided in this Agreement, none of the assets of the Fund shall be withdrawn from the Fund unless and until China and the Bank or either of them shall have purchased or repurchased or caused to be purchased or repurchased by the Fund as provided in paragraph 5 hereof all of the yuan (including interest) purchased or acquired by the Secretary pursuant to the terms of this Agreement.

2. Upon any termination or liquidation of the Fund, all of the assets thereof shall be used for, and applied to, the following purposes in the following order of priority (selling assets for United States dollars to the extent that may be necessary for the purposes of subdivision (a) of this paragraph 2):

(a) The repurchase of yuan purchased by the Secretary pursuant to the terms of this Agreement at the same rate or rates of exchange at which such yuan were purchased and the purchase at the rate of exchange provided in paragraph 5(a)(ii) hereof, of yuan credited or accrued as interest to the special yuan account as provided in paragraph 4 hereof. Such purchases and repurchases shall be in United States dollars and payment shall be made at the Federal Reserve Bank of New York.

(b) To be divided among China, the Bank and other

parties contributing or subscribing to the Fund in such proportion as may be agreed upon by them.

3. (a) The Secretary, through the Federal, shall, as hereinafter provided, purchase Chinese yuan from China and/or the Bank from time to time as requested by the Bank, the United States dollars paid therefor to be used exclusively as provided in this Agreement by the Fund for the purpose of stabilizing the exchange value of the Chinese yuan with respect to the United States dollar. The total amount of yuan thus purchased by the Secretary, exclusive of accrued interest thereon and of any yuan repurchased, shall not at any time exceed in the aggregate the equivalent of United States \$50,000,000 computed at the rate at which such yuan are purchased as hereinafter provided. The yuan so purchased shall be credited to the Federal on the books of the Bank in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States Account No. 2". Upon receipt by the Federal of advice from the Bank by tested cable that this account has been credited with a stated amount of Chinese yuan, the Federal will in turn, in payment therefor, credit the Fund in a special account to be opened by the Federal in the name of "United States Dollar-Chinese Yuan Stabilization Fund of China, Special Account" in an amount in United States dollars equivalent, at the Board's buying rate for United States dollars which it shall have determined by virtue of its actual current market operations, to the amount in yuan so credited to the account in the name of the Federal on the books of the Bank. At the time that the Bank requests the purchase of the Chinese yuan, it shall advise the Federal of the Board's buying rate for dollars.

(b) All United States dollars held by the Fund shall be deposited in the "United States Dollar-Chinese Yuan Stabilization Fund of China, Special Account", at the Federal.

(c) In the event that the Secretary or the Federal shall give the notice provided in paragraph 5(a) or paragraph 9 hereof, no payments, transfers, or withdrawals shall be made, except with the consent of the Secretary, from the "United States Dollar-Chinese Yuan Stabilization Fund of China, Special Account" or the "United States Dollar - Chinese Yuan Stabilization Fund of China, Special Securities Account".

4. The Bank shall credit interest to the special yuan account in the name of the Federal on the last day of each successive month from and after the date hereof. Such interest shall be computed at the rate of $1\frac{1}{2}\%$ (one and one-half percent) per annum on the daily balance of such yuan in such special account as were purchased by the Secretary under this Agreement.

5. (a) Within thirty days after the receipt of notice from the Secretary or the Federal containing such request, China and the Bank, or either of them, shall repurchase, or cause to be repurchased by the Fund (and in the case of accrued interest, purchase, or cause to be purchased by the Fund) in United States dollars by payment therefor at the Federal Reserve Bank of New York:

(i) Any or all of the yuan purchased by the Secretary through the Federal at the same rate or rates of exchange at which such yuan were purchased; and

(ii) Any or all of the yuan representing interest accrued on, and whether or not credited to, the special yuan account on the books of the Bank in the name of the

Federal at the average rate of exchange at which the yuan, upon which such interest has accrued, were purchased by the Secretary through the Federal.

(b) Notwithstanding the foregoing, in the absence of a request by the Secretary or the Federal, yuan in the amount of such accrued interest shall be purchased or caused to be purchased by China and the Bank, or either of them, by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three-months' period from and after the date hereof and upon the termination of this Agreement, at the rate of exchange described in subdivision (a) (ii) of paragraph 5.

(c) All of the yuan credited to the aforementioned special account (including interest), and all the assets held in the Fund and the other obligations of China, the Bank, the Board and the Fund under this Agreement, shall, in so far as the rights, powers, and privileges of the Secretary or the Federal may thereby be affected, be exempt and immune from any taxes, charges, restrictions, regulations, and controls of any nature under the laws of China or any political subdivision thereof.

(d) Any notice given by the Secretary or the Federal either to China, the Bank or the Board shall be deemed and taken as full notice to all of them, China, the Bank and the Board, under this Agreement, and such notice may be given by the Secretary or the Federal to the Bank at its head office in China or any other place indicated by the Bank, to China at the office of the Minister of Finance of China at the seat of the National Government of China or to the Chinese Embassy at Washington, D. C., or to the Board at such address as may be indicated by China or the Board. China, the Bank, and the

Board waive diligence, protest, notice and demand of every kind, except as expressly provided for in this Agreement.

6. In the event of any failure to repurchase (or, in the case of interest, purchase) the yuan as provided in paragraph 5 or of any other act, done or omitted, not in accordance with the provisions of this Agreement, China, the Bank, and the Fund shall, if and when the Secretary, acting directly or through the Federal, so elects by giving notice to China and/or the Bank to such effect, become forthwith obligated to repurchase or cause to be repurchased, or in the case of interest, purchase or cause to be purchased, all of the yuan at a total purchase price in United States dollars determined as provided in paragraph 5 by payment at the Federal Reserve Bank of New York, and the Fund shall be liquidated, and the securities remaining in the "United States Dollar - Chinese Yuan Stabilization Fund of China, Special Securities Account", shall be sold by the Secretary or the Federal and the proceeds of sale credited to the "United States Dollar - Chinese Yuan Stabilization Fund of China, Special Account", and all dollars in such account shall be retained by the Federal and applied by the Secretary or the Federal on account of the repurchase or purchase of yuan as provided in paragraph 2(a) hereof. No failure or delay on the part of the Secretary in exercising any of his rights, powers or privileges in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to the Secretary under this Agreement. It is understood that the Federal Reserve Bank of New York will act only as fiscal agent of the United States in carrying out this Agreement and in doing and performing any acts or transactions in connection with this Agreement, and that it will not incur

any liability for any acts done or omitted pursuant to instructions of the Secretary. The Federal is authorized to accept and act upon any writing relating to the purchase of yuan under this Agreement or to the "United States Dollar - Chinese Yuan Stabilization Fund of China, Special Account" or to the "United States Dollar - Chinese Yuan Stabilization Fund of China, Special Securities Account" which is received by the Federal in the name of the Bank or in the name of the Board and which is believed by the Federal to be genuine, and upon any cablegram, radiogram or telegram relating to the foregoing which is received by the Federal in the name of the Bank or the Board and which conforms to existing arrangements agreed upon between the Bank and the Federal Reserve Bank of New York, or to arrangements hereafter agreed upon between the Bank and the Federal, or between the Board and the Federal, with regard to the authentication of cablegrams, radiograms or telegrams by the use of test numbers, and all such writings, cablegrams, radiograms and telegrams shall be binding upon China, the Bank, the Board and the Fund.

7. Each of the parties to this Agreement shall take and cause to be taken all of the measures necessary to effectuate the purposes and intent of this Agreement.

8. Any obligation of the Secretary pursuant to this Agreement shall be conditional and dependent upon the prior performance by China, the Bank, the Board and the Fund of any obligations to be performed or liabilities to be discharged by them or any of them under this Agreement, and any arrangements made pursuant thereto.

9. Any obligation of the Secretary to purchase yuan under this Agreement shall terminate on June 30, 1941 (in the United States), subject to earlier termination at any timethrity days after receipt by China or the Bank of notice from the Secretary or the Federal to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers or privileges of the Secretary or of the Federal, or any of the duties, liabilities, or obligations of China, the Bank, the Board or the Fund hereunder, all of which shall continue in effect until China, the Bank, the Board and the Fund shall have fully performed their said duties and obligations and discharged said liabilities. If an extension of the Agreement is agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that China and the Bank wish an extension of this Agreement, they will give the Secretary notice to that effect in writing or by cable at least thrity days prior to the termination of the Agreement.

10. China and the Bank, and the officers signing this Agreement on behalf of China and the Bank, each for itself or themselves, represent and agree that the execution and delivery of this Agreement by such officers on behalf of China and the Bank have in all respects been duly authorized, and that all acts, conditions, and legal formalities which should have been performed and completed prior to the making of this Agreement, or in order to make this Agreement binding

and effective upon China and the Bank, have been performed and completed as required by, and in conformity with, the laws, decrees, statutes, and regulations affecting China and the Bank.

This Agreement shall be governed by the laws of the District of Columbia, United States.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in triplicate.

(Signed) Henry Morgenthau, Jr.
Secretary of the Treasury of the United States

National Government of the Republic of China

By

(Signed) Tse Vung Soong

Central Bank of China

By

(Signed) Kan Lee