

The ruling provided that United States and foreign currency, whether mailed or imported into the United States from any blocked country not within the generally licensed trade area or from, by or on behalf of a black listed person, shall be subject to the provision of General Rulings Nos. 5 and 6.

In May, 1942, General Ruling No. 5 was amended through the addition of a paragraph including currency within the definition of "securities or evidences thereof", thus imposing on the importation of currency the same restrictions which applied to securities. As a result a complete import control was placed on currency, except currency coming from Canada, Great Britain, Newfoundland, or Bermuda.

Just as in the case of securities, the enforcement of the restrictions on the importation of currency was in the hands of the Customs Service and the Post Office Department, the former controlling importations of currency brought into the United States by persons entering the country, and the latter, with the assistance of the Office of Censorship, controlling importations of currency in the mail.

It was announced to the other American Republics (within which the dollar was not a part of the circulating medium of exchange) by the United States Missions to those Republics that the Treasury would entertain applications for the release of currency forwarded to the United States by the Central Bank of any American Republic. The Central Banks were advised not to buy this currency and to accept it only for collection. Each application which could be filed by the bank receiving the currency of the United States or by any other interested party was required to show the owner of the currency, when such currency was acquired, from

whom, the nature of the transaction resulting in the acquisition of the currency, the price paid, why such currency was being held, and all other relevant facts. No application was considered until after the currency to which it related had been imported into the United States and forwarded to a Federal Reserve Bank.

The Treasury required that each application relating to currency forwarded to the United States by the Central Bank (or equivalent or analogous banking institution) of an American Republic was to be accompanied by a certification from the forwarder wherein it was stated that the forwarder had investigated the circumstances relating to the currency and certified that the facts stated in the application were true. In the event that the forwarder was unable to supply such a certification the Treasury required a full statement as to the reason of its inability to supply such certification.

Foreign Funds Control, in carrying out its freezing program in connection with currency warned Americans not to take more than the absolute minimum quantities of cash with them in traveling abroad.

The position taken by the Treasury Department with respect to dollar currency imported directly from Europe itself was a presumption that it was looted currency.

In February, 1943, we proceeded with a re-examination of our currency control policies in order to prevent undue hardship to innocent violators. The currency program was always open to criticisms on the ground that it involved arbitrary action on the part of Customs authorities with no flexibility for the consideration of the circumstances surrounding

individual cases. The program touched individuals directly and it was not easy for such persons to see in the action taken in their particular case the implications of the currency program as a whole. There were sound reasons for the adoption on our part of a very strict policy with respect to importations, the primary one being the only way to assure world wide publicity that dollar currency could be brought into the United States was to make the prohibition so strict and so individually severe that it became widely known for that reason.

There seemed little doubt that all the important currency markets of the world were fully informed of the strictness of our regulations. It appeared reasonable to assume that the value of looted dollar currency obtained abroad derived almost entirely from the fact that it continued to be purchased by hoarders who had no intention of attempting to sell it to the United States during the war. If this was true, our currency program would have little effect in lowering the value of United States currency abroad.

Accordingly, the time appeared propitious to make certain adjustments in this policy to reflect current circumstances. It appeared desirable, for example, to prohibit speculation in dollar currency in black markets abroad on the part of individuals subject to the freezing controls. This was accomplished by prohibiting persons subject to our jurisdiction from engaging in transactions in dollar currency physically located abroad except as specifically authorized by Treasury license. In addition, we made certain minor adjustments in our currency program with a view of eliminating friction in unimportant cases. We adopted a more lenient attitude toward the so-called innocent violator rather than

the theoretically courtesy of the original currency program. More positive steps were required in connection with the Mexican border currency problem where it appeared that Customs had been taking currency away from people going from the United States into Mexico without giving them an opportunity of either changing the currency into \$2 bills or otherwise disposing of such currency prior to their entry into Mexico.

(ii) Scorched Earth Policy and the Philippines - General Ruling 10.

There were hundreds of millions of dollars worth of currency, checks, bonds and other securities in the Philippines. It was a physical impossibility to remove all of these assets from the Philippines at a time when the Philippines were under attack and blockade. Accordingly, a program was worked out whereby these assets could be destroyed in the

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Philippines and could be reissued in the United States.

On December 19, 1941 the Secretary sent a memorandum to the President to which were attached draft cables to the High Commissioner of the Philippines providing a procedure for the destruction, by burning in the Philippines and the reissuance in the United States of checks, currency and public and private securities. The program provided that the owner or holder of securities, etc., to be deposited be requested to prepare an affidavit in six counterparts showing: (1) name, address, and citizenship of affiant and all persons having an interest in the matter; (2) list of securities with all pertinent details; (3) date and source of acquisition; (4) in case of currency, list of all kinds, denomination, and banks of issue; (5) in case of government checks, all pertinent details; (6) a request that the securities, etc., be accepted for safekeeping during the national emergency; (7) a request that, in the event of destruction, substitutes be issued by the Treasury Department and be held for account of the depositor or delivered to a designated bank, corporation, or individual located in the continental United States. The instructions also provided that securities other than those of the United States might be accepted for safekeeping with the understanding that neither the United States High Commissioner nor the United States Government assume any responsibility.

The program was applicable to all deposited items, even if blocked countries or nationals thereof had an interest therein and even if such securities, etc., had seals or stamps affixed in blocked countries.

This program was approved by the President and the Philippines was notified to proceed with its execution. However, the High Commissioner of the Philippines notified the Treasury that he was worried about destroying these assets, particularly the gold and silver in the Philippines. There was a gold mining industry in the Philippines which had a large amount of silver, silver coins and silver bullion about which the High Commissioner was particularly concerned.

To assure the High Commissioner of complete authority with respect to the execution of the financial "scorched earth" policy for the Philippines, the President, through the Secretary of the Treasury, on December 24, 1941 delegated to him the powers of Section 301 and 302 of Title III of the War Powers Act which amended Section 5(b) of the Trading with the enemy Act.

A representative of the High Commissioner's Office began the work of accepting the assets pursuant to the policy outlined above. He started this job in much secrecy from the Treasury staff, and continued at this work until he left with the property collected for Corregidor on December 24th. None of the Treasury people worked on this phase of the work until after this representative of the High Commissioner's Office departed. Deposits of property were received until December 29th. On December 30th the property which had been accepted during those five days in Manila was also brought to Corregidor.

The bulk of the property taken into custody consisted of bank and security broker assets held in open portfolio as bank-owned assets or as custodian for depositors. Some clearing house funds were also received. The tabulation of the kinds and amounts of property taken are

contained in records which are in San Francisco.

All of the property, except some Government property, was deposited in various vaults in the Philippine Treasury reservation. This property included about 15-20 boxes of currency, both United States and Philippine, some hundreds of bars of gold, about 2,700 sacks of silver, and about 20 boxes of securities and other chattels in boxes of various descriptions. In checking the currency, whenever the property involved the Philippine Treasury or Philippine National Bank, representatives of the Philippine Government were consulted and participated in the work in some measure.

All of the securities were deposited in the United States according to the direction of their owners. Further instructions dated September 22, 1942, state that the disposal of these securities may be made notwithstanding the provisions of General Ruling No. 11, but that if the owners were located in the Philippines or another blocked country the securities should be placed in blocked accounts.

The rapid progress of the Japanese invasion left no time to destroy valuables in Manila and destruction took place in Corregidor after the removal of the High Commissioner's office to that place. The first currency was burned in the incinerator outside of the Navy Tunnel. The next burning took place in front of the Philippine Treasury reservation and the final outside the Malinta Tunnel at Corregidor.

Sayre felt that he had no authority for the destruction of the pesos belonging to the Philippine Treasury and the Philippine National Bank. This currency was burned under authority of a Commission appointed

by President Quezon on which almost all the same members, with the exception of Saxon, served.

The gold and a substantial amount of private securities were taken from the island in a submarine commencing sometime in February, 1942. Subsequently, the Treasury Department set up a procedure for handling the gold bullion and securities brought to the United States from the Philippines. The gold bullion was transferred to the mint for assaying and refinement and was subsequently deposited in a special blocked account in the name of both the person who originally deposited the gold with the High Commissioner's office and any other person who might have a claim of an interest in such gold. The securities, which for the most part, had been turned into the High Commissioner's office by the branch office of one of the Allied Nations' banks in the Philippines, were deposited in blocked accounts with the United States parent bank of the American branches or with United States branches of the other Allied Nations' banks involved. Withdrawals of gold or securities from blocked accounts so established could be made pursuant to specific Treasury license.

Manila fell January 1, 1942, and shortly thereafter the Japanese were in control of the Philippines, except for Bataan and Corregidor. To avoid having Japanese gather up such Philippine securities and currency as had been left in territory now occupied and create a black market for liquidation of such assets throughout the world, the Treasury worked out a program with the Philippine Commissioner in the United States imposing a strict control over Philippine currency and securities outside of the Philippines. On January 14, 1942, the Resident Commissioner of the

Philippine Islands to the United States issued a notice to all holders of Philippine currency and securities elsewhere than within the Philippine Islands, to deposit such currency and securities on or before February 1, 1942, for registration and safekeeping in a non-enemy bank. The banks were required to forward to the New York Agency of the Philippine National Bank a detailed report of the kinds and quantities received. It would be assumed that currency and securities which appeared after the end of that stated interval would have originated with the Japanese in the Philippines.

The New York Agency of the Philippine National Bank announced that it was prepared to purchase all Philippine paper currency deposited on or before February 1, 1942, in a blocked currency account with either a domestic bank or with it, provided that all terms of General Ruling No. 10 (described below) had been complied with in connection with such currency. Such currency was to be purchased at par.

Simultaneously, the Secretary of the Treasury, with the approval of the President, issued General Ruling No. 10 to implement the execution of the above-described program announced by the Philippine Commissioner in the United States.

Under this general ruling all Philippine paper currency within the United States was required to be deposited in blocked currency accounts in banks on or before February 1, 1942. Currency placed in such accounts could be removed only with the permission of the Treasury Department under a freezing control license. Banks were required to report, on or before February 15, 1942, all Philippine currency in their possession. All dealings in such currency were prohibited.

This general ruling also curbed all dealing in securities issued by, or the obligation of, either the Philippine Government or any corporation organized under Philippine Law unless a "clearance certificate" known as Treasury Department Form TFEEL-2 had been attached. Persons within the United States holding any such securities were able to have their clearance certificates attached to their securities before February 1, 1942, with a minimum of inconvenience since the Federal Reserve Banks automatically attached these certificates upon presentation of the securities accompanied by their description.

After February 1, 1942, the clearance certificates were attached to Philippine securities only after the holder had satisfactorily explained his possession of the securities and the reason a clearance certificate had not been attached prior to February 1, 1942.

On December 8, 1942, one year after Pearl Harbor, a joint memorandum was released in Washington by the Philippine Government and the United States Treasury Department. The memorandum set up a procedure for the release of Philippine securities deposited in banks outside of the United States, and within the generally licensed trade area.

There were certain large Philippine corporations, particularly utility companies such as Manila Electric Company, Manila Gas Corporation, and Philippine Long Distance Telephone Company, that had substantial assets in the Philippines and at the same time had bondholders in the United States. The physical assets as well as most of the working capital of these companies were all in the Philippines. Although they might have had bank accounts in the United States those accounts generally

were simply for the purpose of servicing their bonded indebtedness in the United States.

(iii) Scorched Earth Policy and Hawaii.

In the summer of 1942 the Governor of Hawaii, acting pursuant to the authority vested in him by the Secretary of the Treasury to act for him in connection with the freezing control issued regulations relating to securities and currency in Hawaii to defeat the enemy from making effective use of the financial resources of the islands in the event of a successful invasion.

Under these regulations the ordinary United States currency circulating in Hawaii was withdrawn from circulation and was replaced with a new series of United States currency bearing the distinctive brown seal and the word "Hawaii" overprinted. The circulation in Hawaii of all other United States currency was prohibited. All securities within Hawaii were perforated with the official symbol "H". The Hawaiian currency and the perforated securities could not be exported from the islands except pursuant to license. In the event the islands were occupied, it would have been difficult for the enemy to have realized any gain from the easily identifiable currency and securities which were not destroyed.

(iv) Control of Checks and Drafts - General Ruling 5A.

Through information obtained through the Office of Censorship and British Censorship it was found that substantial amounts of funds were being transmitted between the Western Hemisphere and the European areas through the medium of United States dollar checks and drafts. It

was found, moreover, that in many cases persons in the United States were remitting United States currency and were sending securities or coupons to the blocked European countries.

It is important to note in this connection that the checks and drafts enabled persons to remit funds directly to a beneficiary without indicating to a third party the reason for the payment or the nature of the underlying transaction. Such checks were uncontrolled from the time of their issuance until they were returned to banking channels for collection. They could be endorsed in blank and passed through any number of persons, desirable or undesirable, and thus, through the anonymity which they afforded, furnish to enemies a convenient medium of exchange acceptable throughout the world. It was even possible for persons in blocked countries to acquire free dollars within the United States by purchasing such instruments and returning them through unblocked intermediaries, for example, in Latin America, to the United States for collection and credit to free accounts. As a matter of fact, even though such checks were sent directly to the United States from the blocked country the underlying transactions were ordinarily not subjected to any scrutiny or control since most of the checks were collected and paid under General License No. 1 or the neutral general licenses.

The fact that United States dollar checks and drafts were readily acceptable in blocked countries made it possible for the enemy to obtain foreign exchange through the sale of dollar checks and drafts, which had come into his possession, to persons in the neutral blocked countries. For example, our Legation in Switzerland reported in 1943 that

Germany had obtained possession of dollar checks and drafts in the amount of approximately \$12 million. These checks and drafts were probably looted from persons in countries occupied by Germany. The Legation further reported that German agents were attempting to sell these dollar checks and drafts at a discount in Switzerland and Portugal, in order to obtain Swiss francs and Portuguese escudos.

The British Government was interested in the problem of controlling traffic in checks and drafts, particularly since it controlled most of the communications between the Western Hemisphere and Europe through its censorship stations at Bermuda and Trinidad. Accordingly, it was decided that the problem should be dealt with jointly by the British and United States Governments.

The first step taken to control this traffic was the issuance on August 31, 1942 of Public Interpretation No. 6, which, in effect, prevented the sending of checks, drafts, securities or currency from the United States to blocked European neutral countries and thereby forced such remittances through banking channels. Public Interpretation No. 6 did not, however, stop the flow of dollar checks and drafts to Europe. Moreover, in view of the fact that dollar instruments circulating in the blocked countries could still be sent to the United States for payment, their marketability in those countries was not affected by the export restrictions imposed by Public Interpretation No. 6.

To destroy the value of dollar checks and drafts in the blocked countries not within the generally licensed trade area, it was decided to impose strict import controls over checks and drafts which there was any