

## THE DOCUMENTS

It is appropriate that some commentary be provided on the nature of the wartime documents from which this report has drawn its conclusions. This report has all primary material (i.e., material from the hands of the participants in the actual events) footnoted so that readers may know its exact origins and thereby return to these same documents to draw their own conclusions. Some generic consideration of the overall breadth, completeness and candidness of these documents is also in order.

### THE NATURE OF CENTRAL BANK DOCUMENTS

This report draws almost exclusively on central bankers' documents. Of all institutional records, banking records are perhaps the most predictably regular and complete. Their creation is driven by a series of regulatory, fiduciary and administrative obligations, all of which reflect a response to the systematized accountability that our society demands of its banking system. There is much evidence in this report of documents produced by *regulatory* obligation: the requirement, for instance, stipulated under the 1932 Gold Export Act that the Bank of Canada obtain an export licence every time an earmark client sought to remove gold from the Bank's vault and take it out of the country. The absence of correspondence to the Department of Finance requesting such a permission would constitute a breach of regulatory obligation.

*Fiduciary* obligation is similarly represented in the Bank's written dealings with its clients: the entitlement of any client to have a written confirmation of the disposition of the assets they have placed in the care of a bank. A good example of such an obligation in the context of this report would be the regular production of account statements that provided foreign central banks with precise month-end and year-end reckonings of their earmarked gold holdings in Ottawa. Within its own structure, the Bank of Canada responded to various *administrative* pressures by producing, as a matter of automatic procedure, internal documentation that supported its functions. For instance, this report has relied heavily upon documents generated by the chief of the Currency Division, the division of the Bank charged with overseeing the safekeeping of earmarked gold. Currency Division's reports on the arrival and departure of gold to and from these accounts therefore provided a meticulous record of foreign clients' dealings with the Bank.

Given these pressures, the nature of the Bank of Canada's historical activities is documented in a highly patterned and predictable way. Any gap in or departure from procedure quickly becomes evident. Similarly, the client-driven nature of earmark banking tended to create neatly compartmentalized series of documents that permit the historian to compare the treatment of one account against the treatment apparent in another. The record of any one account may be similarly traced, thanks to bankers' ingrained habit of copying correspondence and memoranda pertaining to one account to other relevant file series. For instance, month-end reports on earmarked gold in a client's account can be found in the files of that particular client as well in files of the Currency Division of the Bank of Canada, which oversaw the safekeeping of that gold.

Bankers' documents are also generally terse and to the point in nature. Driven as they are by regulatory, fiduciary and administrative demands, they seldom deviate from their purpose: to report and record bank activity. By this measure, any concerns on the part of the banker over any

irregularity in procedure, any dilemma of interpretation or any ethical anxiety tends to emerge in the form of a departure from the usual economical style of the record — marginalia, additional paragraphs of explication, references to clarifying telephone calls, etc. Such departures from the norm are readily apparent. Similarly, one looks for out-of-the-ordinary background memoranda that help bank officials shape the decisions reflected in the documents (e.g., the exchange of memoranda between Bank of Canada Governor Graham Towers and foreign affairs adviser O.D. Skelton over the fate of French gold trapped in Canada in 1940).

Research for this report extended well beyond the bounds of the Bank of Canada's strongly patterned documentary history. The records of other government departments — Finance and External Affairs, in particular — that played a role in Canada's wartime financial policies were consulted with the full cooperation of the departments involved. Thus, the ripple effect of any earmarked gold transaction could be traced elsewhere in Ottawa's wartime bureaucracy. The Finance Department records could therefore be expected to yield evidence of consultations with the Bank of Canada over the export of earmark gold. Similarly, documents from the Department of External Affairs could be expected to yield some sense of where financial policy trespassed into the territory of diplomacy, as, for instance, was the case of the postwar disposition of Polish earmarked gold held in Ottawa. As with the Bank's own records, documentation from other departments could be scrutinized in other ways. Internal memoranda, marginalia or references to politicians might tip off the historian to anxieties bred in other government officials by Bank of Canada decisions. Similarly, the absence of such *ad hoc* commentary in these documents suggests that the Bank's decisions did not occasion undue concern.

## THE BREADTH OF THIS DOCUMENTARY INVESTIGATION

With these observations on the *nature* of the documents consulted in mind, something should be said of the *breadth* of the investigation. Shortly after learning of the World Jewish Congress's discovery of documents connecting Canada to wartime gold movements between the Allies and European neutrals, the Bank of Canada launched a vigorous and wide-ranging review of its records to identify all material relating to its wartime gold operations. An *ad hoc* task force of Bank officers was created to compile as thorough a catalogue of documents as possible in preparation for their review by an independent historian and eventually for other researchers and the general public. At the heart of this effort was the Bank's own archival and records-management staff.

There is ample evidence that the Bank of Canada has long made a conscious effort to maintain a documentary record of its wartime activities. As early as late 1943, the Bank's assistant deputy governor and its deputy secretary drew up a set of criteria for deciding which records of wartime activities would be retained. Records of "a purely routine nature" were to be kept for two years. At the other end of the spectrum were, "our most important files and those relating to transactions and business in connection with the war. For instance files on gold movements, conditions of accounts and various arrangements with Banks and the Dominion Government War Finance, Cash Reserves, taxation, Safe and Vaults, etc." were to be retained "indefinitely." Such files, it was noted, should be "examined again after the war is over" and a "permanent record is to be kept of all material

destroyed..."<sup>1</sup> Following this initial commitment to records retention, there are sporadic indications of the Bank's determination to retain its records in a systematic fashion. For instance, this handwritten annotation was found on the cover of the Banque Nationale Suisse gold earmark account file: "It was suggested this file be destroyed to 1944 but Mr. St.A. wouldn't touch it. B.Le.M. March 12/49[47?]"<sup>2</sup> It should also be noted that every working file in the Bank had the following injunction stamped on its front cover: "Officers are requested not to remove letters from the files."

With these initial hints at the comprehensiveness of the records available, a search of the Bank of Canada documents pertinent to this report was launched. The search can only be described as painstakingly thorough. Every gold-related file was examined, catalogued and entered in a finding aid. Every document was examined by myself and/or my research assistant, Matthew Bellamy. Many of the files consulted in fact contained no material of any relation to the gold transactions in question in this report. The complete finding aid of these documents is being made available upon request to the general public by the Bank of Canada. The finding aid will reveal that a virtually complete record of the Bank's earmarked gold transactions, organized on a client-by-client basis, has survived intact to support this investigation. There is absolutely no evidence of document tampering. Given the nature of banking documents (as described earlier in this section), removed material would be glaringly evident.

There is, however, *one crucial gap or departure in record-keeping procedure* in the documents underlying this report. Clearly one of the central hinges of the Bank of Canada's wartime earmark operations was its relationship with the Bank of England. This relationship left a documentary trail in many files. Perhaps the most important of these was the "arrangements" file (file A18-17 - Arrangements) for the Bank of England's earmark account in Ottawa. It stretches back to the opening of the account in 1936 and carries the relationship through the prewar tensions and into the birth of wartime earmarking. And then the file suddenly stops in February 1941 and does not restart until June 1945. Thus the crucial events of the 1942-44 period — England's negotiations with the Swiss, the francs-for-gold swap, the subsequent Portuguese and Swedish gold trades — are not wholly chronicled from the perspective of the Bank of England. There is no official record of the sanctioned destruction of this file. It should be noted that one is able to piece together much of the Bank of England's relation with Ottawa in these mid-war years from copies of the correspondence in other Bank of Canada files (e.g., the Banque Nationale Suisse arrangements file).

There are several suggestions of where the missing correspondence has gone. Given the magnitude of the events, this correspondence probably filled one, possible two full files. It has been speculated that the file(s), because of its special ongoing sensitivity in the war, was kept in the governor's office or the Bank secretary's office, where it could be accessed easily and was never ultimately returned to its rightful place in the main file. There were occasional references in other files to a "secret authorization file" that was kept in the Bank secretary's safe. Possibly the file was kept there and never returned to its rightful parent file. It is also possible that correspondence for the Bank of

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1 Assistant Deputy Governor L.P. Saint-Amour and Deputy Secretary L.P.J. Roy to D.G. Marble, November 24, 1943, BOC file 10-6, copy held in BOC Archives.

2 BOC file A17-1.

England arrangements file was in fact filed in the Bank of England routine correspondence file, because most of the mid-war decisions concerning the account were of a routine nature (e.g., transfers to the Federal Reserve Bank of New York).

There is no definitive answer to the problem of the missing section of file A18-17. The saving grace, however, is that the significant transactions reached between the Bank of Canada and the Bank of England in these years were copied to other Bank of Canada files and quite frequently to the Department of Finance files and are therefore traceable. For instance, the Anglo-Swiss gold swap of early 1942 is completely chronicled in the Banque Nationale Suisse account file at the Bank of Canada. Secondary corroboration of these transactions was also found in the Bank of England files made available to us by the bank in London. It seems very unlikely that these traces of such crucial transactions would have survived in companion document series had there been a concerted effort to erase any written record of the Bank of England's mid-war dealings with the Bank of Canada. The loss of part of file A18-17 therefore seems more accidental than deliberate.

## **ACCESS TO INFORMATION AND PRIVACY LEGISLATION IMPLICATIONS**

It bears emphasis that in its initial commitment in July 1997, to investigate its role in wartime gold transfers, the Bank of Canada undertook to make available to "other researchers, interested groups and the general public" as complete a documentary record of these activities as possible. Such release will necessarily be subject to the Canadian federal government's Access to Information and Privacy Acts, that require obtaining the consent of non-Canadian central bank clients of the Bank of Canada. The principle of client confidentiality undeniably rests at the centre of all banking operations. As the recent controversies that have embroiled Switzerland's banking record in World War II have illustrated, the principle of client confidentiality can be used in a conscious way to serve ends other than its original intent. The rights of the Bank of Canada's clients cannot, however, be taken lightly, and to this end the Bank is engaged in a consultative effort to obtain the consent of parties involved in the events chronicled in this report to ensure as full a disclosure as possible of the documents used in this report.

## **THE SEARCH FOR DOCUMENTS BEYOND THE BANK OF CANADA**

Parallel to the search undertaken at the Bank of Canada, other searches were launched at the Department of Finance and at the National Archives of Canada, where records of federal departments have been sent once they cease to have active relevance to government operations. On July 28, Finance Minister Paul Martin informed the Canadian Jewish Congress that he had instructed his department "to begin gathering all the files on wartime gold from the archives" of his department. The subsequent search was impressively thorough, but it did not unearth documents that departed from the pattern already evident at the Bank of Canada. Finance Department files that focused on earmarked gold were double-checked as part of this report's preparation. In 1963, certain Finance Department documents were ordered destroyed, but these would appear to have been correspondence of a routine nature. A finding aid to the Finance Department documents consulted has been added to the catalogue of Bank of Canada documents described above.

Searches of other collections of federal documents yielded similar results — either a carbon copy of Bank of Canada records or no mention whatsoever of the gold transactions in question. Particular attention was paid to those collections that might have revealed consciousness of action on these issues in the highest echelons of Canada's wartime bureaucracy and its political masters. The War Cabinet Committee Minutes, the Mackenzie King diary and papers of individual ministers (e.g., Minister of Finance J.L. Ilesley) were surveyed and in all instances yielded no results. Back at the Bank of Canada, similar leads were pursued on the periphery of the main records. There were some tantalizing possibilities. Bank Governor Towers, for instance, kept a diary, but it stopped abruptly in 1940. None of these efforts yielded any significant insights.

## ORAL EVIDENCE

Attempts to identify concerns about or consciousness of gold transfers in the senior echelons of government were matched by an attempt to contact Bank employees who might have witnessed these wartime events. At a half a century's distance, it seemed unlikely that senior Bank officials (i.e., those who had risen to positions of authority in the 1940s) would still be available for interviewing. Nonetheless, the Bank's pension lists were consulted and a list of retired employees, all now in their eighties, was drawn up. They were contacted and in some cases interviewed. Without exception, these interviews yielded no recollection of the gold swaps in contention, nor was there any memory of postwar gossip, folklore or inquiry into these events. The only gold memory of the war that most retained was the sudden and immense influx of earmarked gold coming to the Bank in the late 1930s and early war years from Europe. The interviews were, however, useful in providing a vivid sense of the corporate culture of the Bank during the war and in shedding light on the procedures by which gold was stored, recorded and moved in the vaults.

This attempt to collect oral evidence prompted thought about other ways in which wartime Bank officials might have obtained or transmitted information or opinion during the course of the war. The evidence used in this report is almost exclusively written. The written record is undoubtedly a candid one. All overseas communication by cable was coded and therefore secure (e.g., instructions for the transfer of gold from one earmark account to another were encoded). Here the exception proves the rule: the Banco de Portugal did not have a secure, coded cable link with Ottawa, so all of its communications with Canada were transmitted through the Bank of England. Were there other methods of communication that are not reflected in the written record? Several such media suggest themselves.

Prewar records suggest that the transatlantic telephone was occasionally employed to trade opinion between London and Ottawa. Conclusions drawn from these contacts usually appeared in written form after the fact, either as a memorandum dictated to capture the sense and outcomes of the conversation or in allusions to such discussions in subsequent written communication. War seemed to cramp this style of communication, possibly because telephone communication was considered insecure. There are few indications of telephone conversations during the war; coded cables seem to carry the crucial decisions. There seems to be more likelihood that personal contact between central bank officials, especially those from the Bank of England, served to inform the decisions taken on earmarked gold policy. In the dark days of 1940, Ottawa received long visits from British officials such as Sir Frederick Phillips of the Treasury and Bank of England directors like Sir Otto

Niemeyer. There are written records of these contacts (e.g., discussions between Phillips, Prime Minister King and Graham Towers over the fate of French gold and currency in Ottawa). Similarly, Canadians went to London. There are, for instance, terse reports of Graham Towers' visits to London and the Bank of England (e.g., the minutes of the Bank of Canada board of directors on February 9, 1940, record that Towers had recently been to London "at the request of the Government" during which visit "negotiations with the British authorities respecting financial arrangements with Canada had been satisfactorily concluded."). These references suggest that the written record is not entirely hermetic and that other exchanges may have lain behind the wartime decisions and that these may have escaped posterity's reach. There is, however, evidence that a strong bureaucratic instinct to commit important oral communication to paper persisted throughout the war.

## **RECONSTRUCTING THE BANK OF CANADA'S GOLD LEDGERS, 1935-56**

All the foregoing efforts to reconstruct a narrative of the decisions surrounding the gold accounts of the Bank of Canada have been accompanied by an effort to reconstruct the actual physical movement of gold into and out of the Bank of Canada in the years 1935-56. Every gold bar stored in the Bank of Canada, whether owned by the Bank itself or earmarked for an outside client of the Bank, was meticulously recorded in the Bank's gold records. Thus, every bar arriving at the Bank was duly recorded, and every subsequent movement of that bar — either its actual physical departure from the Bank or its book transfer from the account of one client to that of another — could be tracked in the original records as well as in their companion transaction files (e.g., paper notification of gold movements to clients).

Part of the Bank of Canada's decision in July 1997 to thoroughly investigate its role in wartime gold transactions was the determination to reconstruct its gold records on an aggregated basis that would allow it to show overall gold flows in and out of the Bank, while at the same time allowing it to trace any individual bar's history with the Bank. This was a massive undertaking. To meet this challenge the Bank assembled a team of seconded current employees, mainly from its Currency Division, and recently retired officers who had deep experience in the Bank's gold procedures. Their challenge was to capture in computer data bases the entire gold storage operations of the Bank from 1935 to 1956. This entails the account activities of 39 Bank of Canada clients — two domestic clients, 19 other central banks, 6 international institutions and governments and 12 suspense accounts. It involves tracking approximately 565,000 "bar transactions" (i.e., any movement of a bar either physically in or out of the Bank). In the period from 1938 to 1945 alone, the Bank of Canada received 186,332 bars of gold. Some gaps exist in the Bank's records, but it is anticipated that a very high percentage of total gold transactions will be recreated. This project was thus in a position to make a valuable contribution to this report, especially in providing exact figures for the gold held in earmark accounts. The statistics in this report are principally from this source. A separate report prepared by the Bank covers the methodology and final results of the gold ledger reconstruction project and is appended to this report.

## CONCLUSION

The foregoing review leads to the conclusion that a largely complete record of the Bank of Canada's wartime gold policies and practices has been preserved or is in the process of being accurately reconstructed. There is no evidence of document tampering, and those gaps that do exist may in large part be filled by reference to companion series of documents. To this researcher's satisfaction, the Bank of Canada has displayed an entirely open and cooperative attitude in making its history accessible. Much of this record will shortly be made available for public inquiry so that new minds may test the results of this report against their own reading of the documents.