



REPORT
of the
**Board of Enquiry appointed by
the Prime Minister to investigate
certain Statements affecting
Civil Servants**

*Presented to Parliament by Command of His Majesty,
February 1928*

LONDON:

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Board of Enquiry to investigate certain Statements affecting Civil Servants.

MINUTE BY THE PRIME MINISTER, DATED
FEBRUARY 1, 1928.

THE Prime Minister, in consultation with the Secretary of State for Foreign Affairs, directs that an enquiry shall be held forthwith into certain statements made in the course of the case *Ironmonger and Company v. Dyne* affecting Civil Servants.

The following will be the members of the Special Board of Enquiry :—

Sir WARREN FISHER, G.C.B., G.C.V.O.,
Permanent Secretary to the Treasury.

Sir MALCOLM RAMSAY, K.C.B.,
Comptroller and Auditor-General.

Mr. M. L. GWYER, C.B.,
H.M. Procurator-General and
Solicitor to the Treasury.

To THE

RIGHT HONOURABLE STANLEY BALDWIN, M.P.

Sir,

WE were appointed by your Minute of the 1st February to enquire "into certain statements made in the course of the case *Ironmonger and Company v. Dyne* affecting Civil Servants," and we have now the honour of submitting our Report, which we regret has been delayed for reasons to which we refer more particularly below.

2. The case of *Ironmonger and Company v. Dyne* was heard in the King's Bench Division of the High Court of Justice before Mr. Justice Horridge and a Special Jury on the 26th, 27th, 30th and 31st January and the 1st February, 1928. The Plaintiffs, who are foreign bankers, carrying on business in the City of London, obtained judgment against the Defendant, Mrs. A. Bradley Dyne, for £38,938 in respect of foreign currency bought and sold by her. Statements were made in the course of the case to the effect that three Civil Servants, Mr. J. D. Gregory, Mr. O. St. C. O'Malley and Lieut.-Commander H. F. B. Maxse, all employed in the Foreign Office, had been engaged in speculative transactions in foreign currencies with the same firm, though admittedly none of these transactions were in any way connected with the subject-matter of the proceedings in the High Court. We have interpreted our terms of reference as requiring us to investigate the truth of these statements, to ascertain the nature of the transactions referred to, and to consider whether the three persons above named made use of any official knowledge in these transactions for the purpose of private profit, and whether, even if they did not, the transactions were proper or becoming in the case of a Civil Servant. But we understand also that it is your desire and intention that we should further satisfy ourselves upon the question whether other Civil Servants had been engaged in transactions of a speculative kind of which the propriety might be open to doubt. We have accordingly extended the scope of our inquiry so as to cover all these matters.

3. We have held twenty-four meetings, and in addition to the three persons above named a number of witnesses have given evidence before us, some of them at our invitation, others at their own request. Among these were Sir William Tyrrell, G.C.M.G., K.C.B., K.C.V.O., Permanent Under-Secretary of State at the Foreign Office; Sir Victor Wellesley, K.C.M.G., C.B., Deputy Under-Secretary of State; Sir Hubert Montgomery, K.C.M.G., C.B., C.V.O., Assistant Under-Secretary of State; Sir A. Willert, K.B.E., Counsellor; Mr. W. Strang, First Secretary; Mr. S. Gaselee, C.B.E., Librarian; Mr. W. H. M. Selby, C.B., C.V.O., and Mr. G. N. M. Bland, C.M.G., Private Secretaries to the Secretary of State and the Permanent Under-Secretary, respectively; Sir Russell

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Scott, K.C.B., C.S.I., Controller of Establishments at the Treasury; the Rt. Hon. J. Ramsay MacDonald, M.P.; the Rt. Hon. Reginald McKenna, Chairman of the Midland Bank; the Rt. Hon. J. H. Thomas, M.P.; Mr. Cecil Lubbock, Deputy Governor of the Bank of England; Sir Austin Harris, K.B.E., Deputy Chairman of Lloyds Bank; Mr. G. Bromley Martin, London Managing Director of Martins Bank; Mr. Alfred De Wael, a member of the firm of Ironmonger and Company; Mrs. Aminta Bradley Dyne; Mr. W. L. Blennerhassett, D.S.O., O.B.E., and the Very Reverend Dr. John Vance. We have also heard evidence from certain other witnesses in circumstances to which we refer later in this report. We have lastly been furnished with documents and statements of various kinds which appeared to us to be relevant to the matters under our consideration, and also with a complete transcript of the shorthand notes of the evidence given before Mr. Justice Horridge.

4. We had, of course, no power to compel the attendance of any witness, to hear evidence on oath, or to insist upon an answer to any question. But we are glad to be able to say that in no single instance has the absence of these powers limited our inquiry in the slightest degree, and that no material information or document for which we asked has been withheld by any witness. We are in these circumstances reasonably assured that we have been able to elicit all the facts which are or may be relevant to the subject-matter of our investigation, and we desire to express our appreciation of the assistance which has throughout been afforded to us.

5. We propose to divide our report into three parts. In the first part it will be convenient to deal with the case of the three gentlemen whose names have already been mentioned; in the second, with the question whether other Civil Servants have been engaged in speculative transactions of any kind; and, in the third, we have found it necessary to investigate a matter to which our attention was called during the course of our inquiry and which appeared cognate to it.

PART I.

6. Mr. J. D. Gregory, C.B., C.M.G., was born in 1878, and was appointed a clerk in the Foreign Office in April 1902. From 1919 to 1925 he held the rank of Counsellor, and was head of the Northern Department of the Foreign Office, that is to say, the branch which deals mainly with the affairs of Russia and the Baltic and Scandinavian States. In May 1925 he was promoted to be an Assistant Under-Secretary of State, and holds that rank at the present time. Mr. O. St. C. O'Malley, C.M.G., was born in 1887, and was appointed a clerk in the Foreign Office in October 1911. He was promoted to be a First Secretary in 1920, from which year until 1925 he served in the Northern Department immediately under Mr. Gregory. He was appointed an acting Counsellor in China in December 1925. Lieutenant-Commander

H. F. B. Maxse was born in 1889, and served in the Royal Navy until 1920, when he was appointed to the Foreign Office. He was a Third Secretary in the Northern Department until July 1922, and, after a period of foreign service and sick leave, returned there in December 1923. He was promoted Second Secretary in January 1925, and left the Northern Department for another branch of the Foreign Office in January 1926.

7. Towards the end of the year 1922 Mr. O'Malley conceived the idea that he might insure himself against the depreciation of certain French franc investments, in which he had a contingent interest, but over which he had no control, by the purchase and sale of French francs, and with this object he entered into business relations with Messrs. Ironmonger and Company, whose name had been given to him by his stockbrokers. The contracts which he (and afterwards his two colleagues) proceeded to make were all of a similar type and may shortly be described as follows. The client would initiate the transaction by contracting to buy or to sell, as the case might be, at the price of the day, a certain amount of foreign currency from or to Messrs. Ironmonger, for delivery at a date specified in the contract, either one, two or three months forward. The client had no intention in the case of a contract to purchase of taking delivery of what he had bought, and did not possess what he had contracted to sell; and accordingly, at some date before the due date it was necessary for him to reverse the process by contracting to sell or to buy the same amount of currency at the rate prevailing at the moment. If (as was always the case) the two transactions were both carried out with Messrs. Ironmonger, it is obvious that when the due date arrived the settlement of accounts would take the form of a sterling payment of differences only, by one party or the other, and that no foreign currency would itself change hands.

8. We have said that there was no intention on the part of the client to take or give delivery of the currency which he had bought or sold; but in each case Messrs. Ironmonger and Company, had before finally accepting the client's order, entered into a sub-contract for the purpose of covering themselves, their own profit from the transaction consisting in their dealers' "turn" (usually about half per cent.), and they would thus have been in a position, if the client had so insisted, to give or take delivery of the amount of currency specified in the contract. We do not for one moment suggest that, so far as Messrs. Ironmonger and Company were concerned, they were not transacting a perfectly legitimate business; but we are not for the present purpose concerned with the legal effect of contracts or relationships such as we have described above. We understand that there is to be an appeal from the judgment in *Ironmonger and Company v. Dyne*, and though the proceedings in that case were exclusively confined to transactions by the defendant, in which no Civil Servant had any share or part, we think it right to abstain from expressing any opinion on issues possibly similar to those which may be raised on the appeal.

9. Mr. O'Malley's first contract with Messrs. Ironmonger and Company, initiated on the 24th January, 1923, involved a sum of in all 150,000 French francs. It was closed on the 1st February, and the profit on the transaction was £64 9s. 7d. A second transaction, initiated on the 5th February, 1923, and involving 75,000 French francs, was closed on the 14th, and resulted again in a profit of £32 5s. 2d. A further three transactions, each involving 100,000 French francs, were initiated on the 17th February, 15th and 22nd March, 1923, respectively, and finally closed on the 19th June. This series involved losses of £113 8s. 1d. and £163 6s. 10d. in two cases and a profit of £65 11s. 7d. in a third.

10. Thus by the 19th June, 1923, Mr. O'Malley had completed five separate transactions, which involved the sale and re-purchase, or purchase and re-sale, of 525,000 French francs, the gross profit on which amounted to £162 6s. 4d., the gross loss to £276 14s. 11d., making a net loss of £114 8s. 7d. At this point Mr. O'Malley's direct relations with Messrs. Ironmonger and Company ceased. He decided, he explained to us, to cut his losses and discontinue business. He did not, however, adhere to this resolution. At a later date he became interested in other contracts effected between Mrs. Dyne, Mr. Gregory, or both of them, and Messrs. Ironmonger, and there were certainly payments by him in the course of 1924 both to Mr. Gregory and to Mrs. Dyne, amounting in all to less than £200. None of the three parties were able to tell us what exactly these payments represented, except that the greater part was probably in respect of not more than three franc transactions. We accept Mr. O'Malley's statement that he had nothing in the nature of a running account with either of the other parties, and we are satisfied that he had no other dealings in exchange and no other transactions to which attention need be drawn.

11. The case of Mr. Gregory, to which we now pass, is much more complicated. At the beginning of 1923 Mr. Gregory was put in touch with Messrs. Ironmonger and Company by Mr. O'Malley. His first transaction with them was initiated on the 25th January, 1923, that is the day after that on which Mr. O'Malley began operations, and covered a sum of 75,000 francs. Thereafter, acting either on his own account or in a kind of partnership with Mrs. Bradley Dyne, who was afterwards the defendant in the case of Ironmonger and Company v. Dyne, he became involved in speculations of growing magnitude, which ultimately involved both of them in heavy losses. Mrs. Dyne was the wife of a former school-fellow of Mr. Gregory, with whom she and her husband had long been friends. For a few months in 1917 she had been temporarily employed in the Foreign Office. Mrs. Dyne and Mr. Gregory had already, before 1923, carried out on behalf of their respective families a certain number of business transactions, but there had been nothing in the nature of currency speculations. In the course of 1923, Mrs. Dyne learned of the speculations of Mr. Gregory and Mr. O'Malley, and eventually her house became the regular meeting place of the circle who were

interested in the subject, including at a later date Lieutenant-Commander Maxse.

12. Neither Mr. Gregory nor Mrs. Dyne appear to have kept any regular account of their engagements with Messrs. Ironmonger and Company. Still less did they keep any account showing the extent to which either was interested in transactions with Messrs. Ironmonger entered into formally by the other. It thus becomes a matter of extreme difficulty to present a separate and complete picture of Mr. Gregory's individual engagements, but it will perhaps be sufficient for our present purpose to indicate the position in broad outline. During the year 1923 a number of contracts were made with Messrs. Ironmonger in the name of Mr. Gregory for growing amounts, and it is clear that Mrs. Dyne had a share in the proceeds of some of those contracts, though to what extent we are unable to say. Towards the end of 1923, or the beginning of 1924, Mr. Gregory informed Messrs. Ironmonger and Company that Mrs. Dyne had authority to operate on his behalf as she had done previously for a short period during his absence abroad, and he transferred to the account of Mrs. Dyne in Messrs. Ironmonger's books certain credits to which he was entitled in respect of his outstanding contracts with the firm. The position as between the two parties was already confused, but after the transfer we cannot even attempt to unravel it. There is no doubt, however, that Mrs. Dyne dealt with Messrs. Ironmonger on joint account during the greater part of 1924, and that Mr. Gregory had no direct dealings with them until the following year. Mrs. Dyne's operations led to disastrous losses, which ended in a crisis in April or May. After fruitless efforts to disentangle their respective liabilities, Mr. Gregory and Mrs. Dyne eventually agreed to share the loss more or less equally, and debts amounting to approximately £34,000 to Messrs. Ironmonger and Company were cleared off.

13. The joint operations were, however, continued in the hope of retrieving the loss. Mr. Gregory seems to have imposed no limit to the liabilities which might be incurred on his behalf, and after a second crisis at the end of 1924, it was decided that future speculations should be several and not joint.* Mr. Gregory resumed relations with Messrs. Ironmonger and Company, but solely on his own account. These operations yielded a profit until well on in the year 1926. The tide then turned against him, and in January 1927 he ceased to speculate. The result of his separate contracts with Messrs. Ironmonger over the whole period from January 1923 to January 1927, so far as we can ascertain, was in round figures as follows: Aggregate Losses, £20,000; Aggregate Profits, £15,000; Net Loss, £5,000. To this must be added his share of the net loss incurred during 1924 on the joint account, which we are satisfied amounted to not less than £15,000.

* The proceedings in the case of Ironmonger and Company *v.* Dyne arose out of contracts made by the defendant after the joint arrangement with Mr. Gregory had come to an end. Nothing in this report relates to any of those contracts.

14. The extent of Mr. Gregory's dealings may be illustrated in another way by reference to the total amount of currency purchased on his account in the years in question, and the following table is, we think, substantially accurate (a sale, say, of a million francs subsequently repurchased is reckoned as a million francs and not as two million).

Year 1923 :	8,075,000 French francs.
Year 1925 :	17,550,000 French francs.
Year 1926 :	120,000 Norwegian crowns.
	22,000,000 French francs.
	1,500,000 Lire.
	2,000,000 Belgian francs.

To these figures must be added his share (whatever it may have been) of the contracts placed in Mrs. Dyne's name in 1924. These involved, so far as we can ascertain, over 250,000,000 francs.

15. On returning to the Northern department in December 1923, Lieutenant-Commander Maxse, as he informed us, resumed his friendship with Mr. Gregory, and some time early in 1924 first learned that Mr. Gregory and Mr. O'Malley were dealing in francs. We accept his statement that he had had no dealings in exchanges up to that time, and that when he resumed duty after sick leave he came into a going concern. He was aware of the operations of the others, and discussed them with them, but refrained until the middle of 1924 from any dealings. About that time, however, yielding, it would seem, to persuasion, he agreed that Mrs. Dyne should undertake some small transactions in her name on his behalf. Later he took a share—occasionally 10 per cent.—in some of Mr. Gregory's transactions, but he was unable to inform us of the extent of these transactions, as no account of them had been kept. They continued until July 1926, by which time he had made a profit of £500 or £600. In September 1926 he began operations for the first time in his own name, having, as he told us, come into a legacy of a few hundred pounds, and being reluctant to dissociate himself from his friends. He had, between the 17th September, 1926, and the 21st January, 1927, three transactions or sets of transactions with Messrs. Ironmonger and Company, which involved in all 2 million French and Belgian francs, and ended in losses of £1,426 18s. 10d., £1,314 12s. 4d., £1,020 16s. 6d., making a total loss of £3,762 7s. 8d. On balance, therefore, his aggregate loss was in the neighbourhood of £3,200.

16. It is plain that all the above transactions, so far as Mr. Gregory, Mr. O'Malley and Lieutenant-Commander Maxse are themselves concerned, would be described colloquially as gambling transactions, inasmuch as at no time did they ever intend to take or give delivery of any foreign currency, and probably would seldom, if ever, have been financially in a position to do so. In saying this we do not, of course, reflect in any way upon Messrs. Ironmonger, who on their side acted in the ordinary course

of business, and, as we have already explained, covered themselves in the case of each separate transaction by means of a sub-contract placed elsewhere in the market, looking solely for their profit to their "turn" of about one-half per cent.

17. We should be unwilling to lay down any hard-and-fast rule on the subject of gambling transactions by Civil Servants. These may take many forms, from a trifling bet upon a horse race to transactions such as those we have been considering, and the propriety of a Civil Servant engaging in any of them must necessarily depend to some degree upon the circumstances of the case. But of these circumstances, one of the most material to be considered is without doubt the functions of the Department in which he is employed. Thus Civil Servants employed in certain Departments will plainly come under a special obligation to be discreet and careful in all their private financial transactions; the Treasury is pre-eminently one such Department, the Foreign Office is a second, and the Revenue Departments and the Post Office are others. We think that the opportunity of turning official information to private gain is likely to be much less frequent in the Foreign Office than, for instance, in the Treasury, but that such opportunities occur from time to time in most Departments there can be no doubt whatsoever; and where this is so; and indeed we might say, so long as the public, whether rightly or wrongly, believe it to be so, Civil Servants engaged in those Departments cannot and ought not to expose themselves, their Departments or the Civil Service at large to public criticism by gambling or by rash and hazardous speculation. It is unnecessary to elaborate the reasons for a rule of this kind, which we should have thought was elementary and axiomatic.

18. We are fully satisfied that Mr. Gregory, Mr. O'Malley and Lieutenant-Commander Maxse neither used, nor endeavoured to use, any official information for the purpose of their transactions, and that there is no foundation for a suggestion which has come to our notice that Mrs. Dyne was operating as the agent of a syndicate of Civil Servants with the assistance of advance information furnished by them. In our opinion, however, a course of speculative transactions such as we have described above ought never to have been entered upon by any Civil Servant. Least of all ought foreign-exchange speculation to have been undertaken by those to whom, from the nature of their work, the sensitiveness and suspicions of foreign countries with regard to such dealings in their currency cannot have been unfamiliar. By engaging in those transactions at all, these three persons acted, as it seems to us, in a manner inconsistent with their obligations as Civil Servants. It is painful to us to write thus of any of our colleagues in the Service, but the facts leave us no alternative.

19. In Mr. Gregory's case we find it difficult to see any circumstance of extenuation. He was an official of wide experience,

the head of his department when these transactions began, and before they were discontinued an Assistant Under-Secretary of State; yet he encouraged, instead of checking, speculative transactions on the part of those junior to himself, and even shared transactions with them. The extent and duration of his speculations were such as to involve him in serious financial embarrassment. We cannot doubt that he was conscious of the impropriety of what he was doing, and we do not regard it as any sufficient excuse that he did not at any time make use of official information for his private ends.

20. The case of Mr. O'Malley is to be distinguished from that of Mr. Gregory by the infinitely smaller volume and the shorter duration of his transactions. But Mr. O'Malley was the initiator of the whole business, and occupied an official post in the Northern department only less responsible than that of Mr. Gregory himself. It is not open to him to urge that he yielded to the temptation of others, and in his case, also, we cannot doubt that he knew well what he was doing.

21. For Lieutenant-Commander Maxse we think that some extenuating circumstances may be admitted. After service in the East followed by sick leave in this country he came back in December, 1923, as he told us, into "a going concern." His two seniors had already been engaged in speculation, one of them to a very large extent, and Lieutenant-Commander Maxse followed the ill example which had been set him, if, indeed, he was not actually induced to follow it. His own later transactions, it is true, were on a much larger scale than Mr. O'Malley's had been; but we are not disposed to regard this as being in the circumstances necessarily an aggravation; and the blame attaching to Lieutenant-Commander Maxse is not, in our opinion, as great as that which we must assign to Mr. Gregory and in a less degree to Mr. O'Malley.

22. It was urged before us that there is no real distinction between speculative transactions in foreign exchange on the one hand, and investing in foreign securities on which interest is paid in a local currency on the other, if the investment is made in the hope of future appreciation. This argument seems to us to be without any weight whatever, and beyond the common factor of a foreign currency we can see no analogy of any kind between the two cases. No doubt instances might be given of particular transactions which are *incipitibus usus*, but that plea will not avail in the circumstances of the present case. Black does not become white because there are intermediate shades of grey partaking of the quality of both. The absence of any definite Civil Service rule upon the subject is clearly not conclusive. We have ventured at the end of this report to indicate some of the principles, which, as it seems to us, ought to guide Civil Servants in these matters, and it is unnecessary for us to say more upon the subject here.

23. Before passing to the next part of our report we wish to refer briefly to two matters. The name of Mr. W. L. Blennerhassett, D.S.O., O.B.E., was mentioned in the course of the proceedings before Mr. Justice Horridge. This gentleman had for some time after leaving the army and before returning to civil life been temporarily attached to the Diplomatic Service, and had held appointments abroad. His connection with the Foreign Office, however, had entirely ceased by June 1922. He was a personal friend of Mr. Gregory, but he was not in any way concerned with the transactions which were the subject of the proceedings in *Ironmonger and Company v. Dyne*. He had no dealings at any time with any Civil Servant, but a suggestion seems to have been made in Court that he had been jointly interested with Mrs. Dyne in some transaction. This was a complete misapprehension. He acted professionally for Mrs. Dyne as her broker on one or two occasions, but there was nothing unusual in the terms on which the business was carried out, and it is unfortunate that his name should have been introduced at all. The second matter relates to a suggestion that Foreign Office codes were used for the purpose of communication between Mr. Gregory and Mrs. Dyne. There is no foundation of any kind for this suggestion, which was apparently due to the misreading of the original of a telegram produced in Court. We are satisfied that no codes were used, official or otherwise, by Mrs. Dyne or by Mr. Gregory, and that Mrs. Dyne had no access to Foreign Office codes or ciphers at any material date.

PART II.

24. The next question with which we have to deal is whether any other Civil Servants have been engaged in transactions similar to those which we have already described.

25. There has come to our knowledge one such other case, and it is right that we should state that the official concerned, Mr. G. H. Villiers, C.M.G., a Counsellor at the Foreign Office since 1921, volunteered at the earliest moment a complete statement to his superiors, which he repeated afterward to us, of the transactions in which he had taken part. Mr. Villiers in no way and at no time was associated with Mr. Gregory's and Mrs. Dyne's circle. He heard at the beginning of 1923 that Mr. Gregory was dealing in francs, and received from him the name of Mr. de Wael, a partner in Messrs. Ironmonger and Company. He made four contracts with Messrs. Ironmonger, to an amount in all of 500,000 francs, between the 29th January and 23rd March, 1923, the last of which was closed on the 25th June, 1923. These resulted in a net loss of £72 (£200 loss reduced by £128 profit). Since then he has never had any similar transactions.

26. The impropriety of Mr. Villiers's action is plain; though we are satisfied that it represents an isolated adventure bearing

no resemblance, except in form, to the systematic operations of the members of the circle whose cases we have already examined. We are sure that he made no use whatever of any official information.

27. The case of *Ironmonger and Company v. Dyne* could not fail to give rise to rumours that gambling transactions of a character similar to those described above were not confined to persons whose names were mentioned in Court. We have been assured by Mr. de Wael, who has given us throughout the fullest and most complete information on all matters relevant to our enquiry, that to the best of his knowledge and belief his firm have had no transactions with any Civil Servants other than the three whose names were mentioned and the one to whom we have just referred. We entirely accept this assurance; but in view of the harm which the circulation of such rumours might do both to the individuals named in them and to the Civil Service at large, we have thought it incumbent upon us to ascertain so far as we reasonably could what rumours were in fact current and to investigate each one as it came to our notice. Having thus become aware that the names of certain Civil Servants (not in the Foreign Office alone) were being talked of, we have informed each one of them of the fact, and have enquired whether he desired to make any statement to us on the matter. In every instance our request has been acceded to, and, where the person named was present in England, he has willingly attended before us for the purpose of giving any further information which we might desire.

28. We are happy to report that in every case we have received an absolute and unqualified denial of the truth of the rumours. In some cases they appear to have been pure inventions, in others to have arisen from some transaction in exchange which was perfectly legitimate and justifiable, such as purchase of currency for family reasons or for the purposes of a holiday abroad. In one case the origin of the rumour seems to have been nothing more than the single purchase for investment of a foreign Government security of trifling amount, which was, in fact, held by the purchaser for over two years before being sold.

29. In one case only did it seem to us that a transaction, now over seven years old, of which full particulars were frankly laid before us, might be said to have a speculative complexion. In November 1920, Mr. M. W. Lampson, as he then was, a First Secretary in the Foreign Office, purchased jointly with his wife £1,000 worth of French francs, which he sold 2½ months later at a profit of £135. Both the purchase and the sale were cash transactions and were made through his bank in London, and there is no question of any official information being used. The francs were not bought for family or holiday purposes, but in the hope of an appreciation in value, and we regard such a purchase of foreign currency by a member of the Diplomatic Service as undesirable, even though it was a single transaction only, and had nothing at all in common with a gamble in differences.

30. We have come to the definite conclusion that we should be doing a grave injustice if we were to identify any persons whose names have been the subject of what we have satisfied ourselves to be unfounded rumour. Not only are they, in our opinion, absolutely innocent of any act to which exception could possibly be taken, but there is no evidence against them other than the rumour itself. This we have thought it our plain duty to probe, because, whether ill-founded or not, mere gossip can often do more harm to reputation than a charge openly brought upon evidence which can be tested; but to mention names in our report might be taken as giving colour to the suggestion that there was, in fact, evidence which required investigation. There was not a scintilla of evidence, and we decline to give further currency to rumours which reflect discredit only upon those who circulate them.

31. Although ourselves amply satisfied that the events which have occasioned the appointment of this Board were wholly exceptional, we were anxious to fortify our conclusions by independent evidence unconnected with the Civil Service. It seemed to us impossible that any real leakage of official information or any extensive speculation on the part of Civil Servants could have failed to come, directly or indirectly, to the knowledge of the City. We have now had the advantage of hearing the views of the Chairman of the Midland Bank, the Deputy-Governor of the Bank of England (in the absence through illness of the Governor), the Deputy-Chairman of Lloyds Bank, and the London Managing-Director of Martins Bank, who were so good as to attend some of our meetings and to give us the benefit of their knowledge and experience. Each of them stated that no rumours of any leakage of official information or of any speculation by Civil Servants had reached them, and that, notwithstanding the facts disclosed in the recent proceedings in the High Court, their own belief, and that of their business associates, in the integrity of the Civil Service remained unshaken. They added that the general surprise at the disclosures in that case might itself be taken as a measure of the confidence with which the Civil Service was regarded in the City, and which was still unimpaired.

32. This is perhaps a convenient place for a brief reference to the written rules for the conduct of Civil Servants in financial matters which are now in force. We have received evidence on this subject from Sir Russell Scott, who handed in copies of the more important of these rules in their latest form. These are printed as an appendix to this report. Sir Russell Scott also drew our attention to the fact that in many offices departmental regulations had been made supplementing the general rules where the circumstances of the particular Department seemed to require it. It appears to us, after an examination of these documents, that their scope is sufficiently comprehensive, but it may be that in some respects the obligations which they imply could usefully be stated with greater precision.

PART III.

33. There is one other investigation of which we should have been glad to be relieved, since it touches upon matters which have formed the subject of political discussion. But inasmuch as it is closely related to our present enquiry, and involves the honour of the Civil Service, we think it our plain duty to express an opinion upon it. It arises in the following way :—

34. On the 25th October, 1924, there appeared in the public press a letter addressed to the Soviet Chargé d'Affaires on the subject of a document to which the attention of the Foreign Office had recently been drawn. This letter was signed by Mr. Gregory "in the absence of the Secretary of State," and the circumstances in which it was despatched from the Foreign Office and made public became the subject of acute political controversy. Suspicions of a deliberate attempt to compromise the Government were freely expressed, and to many unacquainted with the machinery of Government Offices the mere fact that the letter was signed by Mr. Gregory seemed to have a special significance.

35. On the 11th December, 1924, a statutory declaration, which we have seen, was made by a former inmate of Mrs. Dyne's house containing statements in which Mr. Gregory's name was mentioned. These statements, so far as they are material for the present purpose, were to the following effect : (1) that Mr. Gregory and Mrs. Dyne had been speculating in foreign currency and had lost a large sum of money ; (2) that on or about the 21st October, 1924, Mrs. Dyne had spoken of the possibility of Mr. Gregory having to leave the Foreign Office ; (3) that on the 25th October Mrs. Dyne said with reference to the letter to the Soviet Chargé d'Affaires that " Mr. Gregory did it when the Prime Minister's back was turned " ; (4) that on the 27th October Mrs. Dyne said that Mr. MacDonald had got thrown out and that Mr. Gregory had made his name ; (5) that at some time before 8 P.M. on the 28th October, the day before the General Election, Mr. Gregory had visited Mrs. Dyne's house in company with a gentleman supposed to be of Russian nationality, and had said, laughing, " Come on into the plot " ; (6) that Mrs. Dyne, after the General Election, expressed satisfaction at the defeat of the Government, and that Mr. Gregory had said that they were " no good."

36. It is clear that statements of this nature, if and when they became known, as they did, to a number of persons, were well calculated to give rise both to suspicion and to rumour. The rumours seem ultimately to have taken the form of allegations that Mr. Gregory had engineered both the despatch and publication of the letter to the Soviet Chargé d'Affaires behind the back of the Prime Minister, that he had done this to serve his own financial ends, that Mrs. Dyne and a White Russian were connected in some way with the transactions, and that the defeat of the Government at the polls was celebrated by a party at Mrs. Dyne's house.

37. The statutory declaration at some time early in 1925 was brought to the notice of Mr. Ramsay MacDonald. It is scarcely necessary to say that, as he told us, he treated it with every possible reserve, but he thought it both right and fair that its contents should be communicated both to Sir Eyre Crowe, the then Permanent Under-Secretary of State at the Foreign Office, and through him to Mr. Gregory himself. He accordingly saw Sir Eyre Crowe, who at once expressed his total disbelief in the allegations made, but agreed that Mr. Gregory should be invited to make any statement which he might desire upon the matter.

38. Mr. Gregory accordingly saw first Mr. MacDonald and later Mr. J. H. Thomas, who was a member of the Cabinet Committee which had investigated the Zinoviev document before the Government went out of office. The clear impression left upon the minds of both Mr. MacDonald and Mr. Thomas was that Mr. Gregory denied all the statements in the statutory declaration, including the references to foreign exchange transactions. Mr. Gregory's recollection is, that while he denied that in the performance of his official duties he had been influenced by any motives of a personal or political character, he declined to discuss the private affairs of one of his friends. He was, as he told us, indignant at what he supposed to be espionage upon Mrs. Dyne,—a supposition which, we may say, was entirely mistaken, for the statutory declaration was a voluntary statement and the person making it had herself no connection with any political party. But whatever Mr. Gregory said or did not say, it is quite clear that he made no admission of speculative dealings in foreign exchange, and we think that the only reasonable inference which Mr. MacDonald and Mr. Thomas could have drawn from their interviews with him was that such dealings had not taken place. We cannot but regret Mr. Gregory's reticence, whatever may have been the motive for it; and even if he was in the circumstances unwilling to make any admissions to Mr. MacDonald and Mr. Thomas, we think that he was wrong in not making a full disclosure to Sir Eyre Crowe. No further action was taken either by Mr. MacDonald or by Mr. Thomas, for, as they told us, they were both ready to assume that the statements made had no sufficient foundation to justify further action. That this was so is shown by the fact that neither mentioned the matter again to Sir Eyre Crowe.

39. When, however, the case of *Ironmonger v. Dyne* was reported in the newspapers Mr. MacDonald very naturally recalled the earlier incident, and let us know through the Prime Minister that he had in his possession information which he thought it right to lay before us. He told us that he made no charge or accusation against Mr. Gregory, but that in an investigation such as that on which we were engaged he felt it desirable that every fact which might have a possible relevance should be brought to our knowledge. If we may be permitted to say so, we concur in this view and we are grateful to Mr. MacDonald and Mr. J. H. Thomas for their assistance in

the matter; for it is clear that the earlier suspicions and rumours, dismissed at the time as improbable and as resting upon hearsay alone, would naturally be revived by the evidence given before Mr. Justice Horridge, which afforded conclusive proof that Mr. Gregory had in fact been speculating largely in foreign exchange. It might therefore be believed by some persons, and we are satisfied that this belief exists, that Mr. Gregory, finding himself seriously embarrassed and being anxious to retrieve his losses, conceived the idea of making use of his official position for the purpose of discrediting the Government at a critical moment and possibly of securing their defeat at the polls, in order to bring off a financial coup with the assistance and co-operation of Mrs. Dyne, his fellow-speculator, and Russian residents in England who were political opponents of the Russian Government. The bare statement of these suggestions indicates their extreme gravity. They are suggestions not merely of a breach of duty, but of gross corruption and of an unparalleled abuse of his position by a Civil Servant. We have therefore thought it right minutely to investigate all the circumstances, and have delayed the presentation of our report until we had had an opportunity of doing so. For this purpose we have been permitted to see all official papers which might have a bearing upon the subject, and the persons concerned have afforded us full inspection of their pass books and other documents besides giving oral evidence and replying to any questions which we wished to ask.

40. It will be convenient in the first instance to set out the assumptions on which a charge of corruption such as we have indicated above must necessarily be based and afterwards to examine in detail the evidence which is available for the purpose of establishing or disproving the charge.

41. If it be the fact that Mr. Gregory "behind the back of the Prime Minister" and with a view to his own financial gain sent or caused to be sent on the 24th October, 1924, the letter to the Soviet Chargé d'Affaires, and gave it or caused it to be given to the Press on the same day, it is clear that the plot, if plot there was, must have been conceived before that date. The document afterwards known as the Zinoviev letter first came to the notice of the Foreign Office on the 10th October, and the inception of the scheme must therefore have been at some time between the 10th October and the 24th October. Presumably, the idea must have been to bring about a state of things likely to produce a marked effect upon the course of foreign exchanges, so that an astute speculator, knowing in advance what that effect would probably be, would be enabled by extensive and timely sales or purchases to reap the benefit of his act. As soon as the act was done and the effect produced, the opportunity would be gone. It is therefore reasonable to suppose that advantage would have been taken of it previously; and, accordingly, the speculative sales or purchases must have been made before the 25th October. After that date the speculator would be in no better position than any other member of the public.

42. The evidence which is relevant to the above matters is as follows: The document known as the Zinoviev letter was brought first to the notice of the Foreign Office, as we have said, on the 10th October. It came before Mr. Gregory in the ordinary course of his official duties on the 14th October, and in minuting it to Sir Eyre Crowe he wrote: "I very much doubt the wisdom of publication. The authenticity of the document would at once be denied." Sir Eyre Crowe took a different view and minuted to the Secretary of State accordingly. The gist of Mr. MacDonald's reply on the 16th October was that they must be sure that the document was authentic, that he favoured publication of such things, and that a draft of a letter of protest to the Soviet Chargé d'Affaires should be prepared for his consideration, which must be such as to carry conviction. It is therefore clear that up to that date no plot could have been conceived by Mr. Gregory. It fell to him to prepare the first draft of the letter; the draft was altered by Sir Eyre Crowe, who, having satisfied himself on the question of authenticity, on the 21st October submitted the redraft to Mr. MacDonald (who was then in the country conducting his election campaign) with the observation that it could be published as soon as it had reached M. Rakovski's hands. On the morning of the 24th October it was received back at the Foreign Office by Sir Eyre Crowe with extensive alterations in Mr. MacDonald's own handwriting, but not initialled by him. Sir Eyre Crowe at a meeting before midday on the 24th in his own room, at which Mr. Gregory and one or two others were present, announced his decision to despatch it forthwith to the Soviet Chargé d'Affaires. A copy was handed to the Press during the evening, and the letter was published in all the newspapers on the 25th October.

43. The decision to despatch the letter was, we are satisfied, the decision of Sir Eyre Crowe alone. Apart from the fact that he was not a man to allow himself to be overruled or overpersuaded by a subordinate, we are able to state on the authority of one of our own number, as well as on the unimpeachable evidence of other witnesses, that Sir Eyre Crowe acknowledged his entire responsibility for the action taken. It is no part of our duty to inquire whether his decision was due to a misunderstanding of Mr. MacDonald's wishes, to an error of judgment, to a desire to anticipate the possible publication of the Zinoviev document by a London newspaper, or (it may be) to a belief that the hands of the Government would be strengthened by his action. Whatever the reason, none who knew Sir Eyre Crowe's high and austere sense of public duty will doubt that his motives were upright, single-minded and honourable; and we are confident that he never for one moment anticipated the political consequences which in fact followed.

44. So far as regards Mr. Gregory, it is a necessary conclusion, we think, from what we have said above, that he could in no circumstances have known before the morning of the 24th October,

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when a communication would be received from Mr. MacDonald, nor what its contents would be. And even if, contrary to the actual fact, the decision to despatch the letter had been his and not Sir Eyre Crowe's, his only opportunity for turning his act to his own financial advantage would have been during that day. There is not the slightest evidence that he did anything of the kind.

45. After a minute examination of the transactions opened or closed during the nine months beginning the 1st April, 1924, and particularly during the month of October, and after inspecting the pass-books of Mr. Gregory and Mrs. Dyne, we find no evidence to support the hypothesis that their operations had any relation to the publication of the Zinoviev letter or were planned to derive advantage therefrom.

46. It is clear that the operations were conducted on no systematic plan; the dealings in the month of October, though somewhat larger in volume, were not abnormal in comparison with the preceding months; the individual transactions can all be explained by the ordinary factors known to the public at large, and they afford no ground for supposing that either Mr. Gregory or Mrs. Dyne contemplated bringing off any special financial coup. The record of transactions initiated or closed between the 10th October and the 6th November, a period which includes both the arrival of the Zinoviev document in the Foreign Office and the resignation of the Government, seems to us to speak for itself. It is as follows:—

NEW COMMITMENTS (Forward Sales or Purchases).

Date of New Contract.	Operation.	Date of Closing.	Loss.	Profit.
13 Oct. ...	Purchase of 5,000,000 fcs. ...	1 Dec., 1924 ...	£ 716	£ —
15 „ ...	Sale of 10,000,000 fcs. ...	6 and 13 Nov. ... 8 Dec. ...	—	501
20 „ ...	Sale of 2,000,000 fcs. ...		5 Nov. ...	403
22 „ ...	Purchase of 5,000,000 fcs. ...	1 Dec. ...	1,382	—
			235	—

OLD COMMITMENTS CLOSED.

Date of Contract.	Date of Closing.	Closing Operation.	Loss.	Profit.
19 Sept. ...	10 Oct. ...	Sale of 4,100,000 fcs. ...	£ —	£ 1,338
7 and 8 Oct. ...	10 and 15 Oct. ...	Purchase of 8,000,000 fcs. ...	—	496
23 June ...	24 Oct. ...	Sale of 4,000,000 fcs. ... 500,000 fcs. (Brussels) ...	} 4,565	—
8 Oct. ...	27 „ ...	Sale of 4,000,000 fcs. ...		—
9 „ ...	6 Nov. ...	Sale of 1,500,000 fcs. ...	—	75

47. It will be seen that of the new commitments entered into by Mrs. Dyne (whether or not Mr. Gregory was interested in them) within the period none were closed before the 5th November, and the sale effected on that date resulted in a loss of £1,382. One old commitment entered into as long ago as the 23rd June actually matured on the 24th October, but the closing sale, so far from realizing a profit, resulted in the heaviest loss of the month, viz., £4,565. Nor is there any indication that between October 1924 and the present time Mr. Gregory has had the disposition of any substantial sum of money of which the source and origin are not accounted for.

48. Lastly, it is pertinent to ask in what way the publication of the Zinoviev document could possibly have affected the course of foreign exchange. In the case of the French exchange, to which Mrs. Dyne's dealings in October were almost exclusively confined, it is clear that, in fact, it did not do so; and the bankers who gave evidence before us were emphatic in saying that in 1924 it would have been wholly unreasonable to anticipate that political events in this country, even a General Election or change of Government, would have had any effect at all upon foreign currency. In other words, such events, whether natural or engineered, were quite worthless for speculative purposes to a gambler in exchange. It is possible that this consideration might not apply with equal force in the case of speculative transactions in Stock Exchange securities; but there is no indication of any such transactions by Mr. Gregory, and we are satisfied that there were no transactions at or about this period either by himself or by Mrs. Dyne which could in any way be related to the Zinoviev document, or to any information connected with it.

49. Some suspicion has attached to Mr. Gregory merely because the letter to the Soviet Chargé d'Affaires was signed by him "in the absence of the Secretary of State." This, however, was in conformity with Foreign Office practice, and it is clear to us, after hearing the evidence of Sir William Tyrrell and others, that it would have been unusual for Sir Eyre Crowe or anyone but the head of the department dealing with the matter (in this case the Northern department) to have signed the letter. The evidence, indeed, satisfies us that Mr. Gregory received direct instructions from Sir Eyre Crowe to sign and despatch the letter, and that to one of his colleagues in the Northern department Mr. Gregory, after receiving those instructions, repeated a doubt which he had already expressed to Sir Eyre Crowe whether on political grounds the decision was a wise one.

50. It has also been asked why the letter was handed to the Press and why there was no telephone communication with Mr. MacDonald during the 25th. The answer to the first question is that Sir Eyre Crowe directed that the letter should be published, and it will be seen from what we have said above that it was

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common ground that, if the letter was sent to the Soviet Chargé d'Affaires at all, it was to be published simultaneously in the Press. The answer to the second question appears to be that, as Sir Eyre Crowe seems to have satisfied himself as to the wishes of the Secretary of State, there was no occasion to telephone; but we may observe that it would, in any case, have been for Sir Eyre Crowe to telephone to the Secretary of State if occasion required and not for Mr. Gregory.

51. It is only necessary after what we have said above to make a few comments on some of the statements contained in the statutory declaration, which it is now possible to view in their proper perspective. In so far as the statements are alleged to have been made by Mrs. Dyne, they are, of course, no evidence against Mr. Gregory. We say frankly that we do not believe that Mrs. Dyne ever said on the 25th October or at any time that "Mr. Gregory did it when the Prime Minister's back was turned," unless she was merely repeating current gossip. Nor could Mrs. Dyne have said on the 27th October that "Mr. MacDonald had got thrown out and that Mr. Gregory had made his name." The General Election was not yet over, and the alleged remark, if made at all, looks more like a garbled version of some such observation as that "Mr. MacDonald will be thrown out and Mr. Gregory's name will be connected with it." In any event, both the alleged statements are quite worthless as evidence on which any charge, or even suspicion, can be based.

52. The alleged Russian who called at Mrs. Dyne's house in company with Mr. Gregory was, we are satisfied, not a Russian at all, but a foreign diplomat of another nationality, who had long been a personal friend of Mr. Gregory and his family. And in connexion with the visit of this gentleman, it is sufficient to say that the laughing remark alleged to have been made by Mr. Gregory, "Come on into the plot," is perhaps as good a proof as any that no plot existed; for so damning an invitation would scarcely have been given in the presence of one of the household staff. If made at all, it was no doubt a jesting reference to rumours which had already begun to circulate.

53. We are satisfied that there is not the slightest foundation for any of the suspicions which have, in our opinion, most unjustly attached to Mr. Gregory in connexion with the events of the 24th and 25th October, 1924, and we beg to report accordingly.

54. We think in conclusion that we shall not be travelling outside our terms of reference if, as three Civil Servants of some experience and jealous for the honour and traditions of the Service, we indicate what we conceive to be the principles which should regulate the conduct of Civil Servants—whether engaged in Home Departments or on diplomatic missions—in their relation to the public.

55. His Majesty's Civil Service, unlike other great professions, is not and cannot in the nature of things be an autonomous profession. In common with the Royal Navy, the Army, and the Royal Air Force, it must always be subject to the rules and regulations laid down for its guidance by His Majesty's Government. This written code is, in the case of the Civil Service, to be found not only in the Statutes but also in Orders in Council, Treasury Circulars and other directions which may from time to time be promulgated; but over and above these the Civil Service, like every other profession, has its unwritten code of ethics and conduct for which the most effective sanction lies in the public opinion of the Service itself, and it is upon the maintenance of a sound and healthy public opinion within the Service that its value and efficiency chiefly depend.

56. The first duty of a Civil Servant is to give his undivided allegiance to the State at all times and on all occasions when the State has a claim upon his services. With his private activities the State is in general not concerned, so long as his conduct therein is not such as to bring discredit upon the Service of which he is a member. But to say that he is not to subordinate his duty to his private interests, nor to make use of his official position to further those interests, is to say no more than that he must behave with common honesty. The Service exacts from itself a higher standard, because it recognises that the State is entitled to demand that its servants shall not only be honest in fact, but beyond the reach of suspicion of dishonesty. It was laid down by one of His Majesty's Judges in a case some few years ago that it was not merely of some importance but of fundamental importance that in a Court of Law justice should not only be done, but should manifestly and undoubtedly be seen to be done; which we take to mean that public confidence in the administration of justice would be shaken if the least suspicion, however ill-founded, were allowed to arise that the course of legal proceedings could in any way be influenced by improper motives. We apply without hesitation an analogous rule to other branches of the public service. A Civil Servant is not to subordinate his duty to his private interests; but neither is he to put himself in a position where his duty and his interests conflict. He is not to make use of his official position to further those interests; but neither is he so to order his private affairs as to allow the suspicion to arise that a trust has been abused or a confidence betrayed. These obligations are, we do not doubt, universally recognised throughout the whole of the Service; if it were otherwise, its public credit would be diminished and its usefulness to the State impaired.

57. It follows that there are spheres of activity legitimately open to the ordinary citizen in which the Civil Servant can play no part, or only a limited part. He is not to indulge in political or party controversy, lest by so doing he should appear no longer the disinterested adviser of Ministers or able impartially to execute their policy. He is bound to maintain a proper reticence in discussing

public affairs and more particularly those with which his own Department is concerned. And lastly, his position clearly imposes upon him restrictions in matters of commerce and business from which the ordinary citizen is free.

58. Between the regular investment or management of a private fortune on the one hand, and speculative transactions in stocks, exchange or commodities on the other, there are obviously numerous gradations, and it may often be difficult to draw the precise line of demarcation between what is lawful and what is prohibited; it may even be inadvisable to make the attempt, because many things, though lawful, may yet be inexpedient. But some transactions fall indubitably on one side of the line rather than upon the other. It might well be desirable for a Civil Servant in all circumstances to avoid transactions wholly speculative in character; but where he is employed in any Department to which, whether rightly or wrongly, the public attribute the power of obtaining special information, such as the future course of political or financial events likely to affect the rise and fall of markets, then we assert unhesitatingly that participation in such transactions is not only undesirable or inexpedient, but wrong. The knowledge that Civil Servants so employed are engaged in them could not fail to shock public confidence at home, and, especially if matters of foreign exchange are involved, to produce a deplorable effect upon opinion abroad.

59. We content ourselves with laying down these general principles, which we do not seek to elaborate into any detailed code, if only for the reason that their application must necessarily vary according to the position, the Department and the work of the Civil Servant concerned. Practical rules for the guidance of social conduct depend also as much upon the instinct and perception of the individual as upon cast-iron formulas; and the surest guide will, we hope, always be found in the nice and jealous honour of Civil Servants themselves. The public expects from them a standard of integrity and conduct not only inflexible but fastidious, and has not been disappointed in the past. We are confident that we are expressing the view of the Service when we say that the public have a right to expect that standard, and that it is the duty of the Service to see that the expectation is fulfilled.

We have the honour to be,

Sir,

Your obedient Servants,

N. F. WARREN FISHER.

MALCOLM G. RAMSAY.

M. L. GWYER.

*Treasury Chambers,
Whitehall; S.W.,
February 25, 1928.*

APPENDIX.

EXTRACT FROM ORDER IN COUNCIL DATED JANUARY 10, 1910.

17. No officer shall be allowed to accept any part in the management of any society, or any trading, commercial, industrial, or financial firm or company which would require the attendance of such officer at any time between the hours of 10 A.M. and 6 P.M.

TREASURY CIRCULAR DATED SEPTEMBER 3, 1923 (No. 24/23.)

Bankruptcy and Insolvency of Civil Servants.

The Lords Commissioners of His Majesty's Treasury have had under review the practice of various Departments in dealing with cases of Civil Servants who become bankrupt or insolvent. It is apparent that, while the general principles laid down in the Treasury Minute of the 30th November, 1863, continue to be observed, certain differences have arisen among Departments in the application of these principles and Their Lordships have accordingly drawn up the following rules for general guidance:—

(1) A Civil Servant who becomes a bankrupt or insolvent must, under pain of dismissal, at once report the fact to the Permanent Head of his Department.

(2) In such cases, the officer concerned should be required at the earliest possible moment to submit a complete statement of the facts of his case to the Head of his Department, who will decide, in his discretion, whether the circumstances are such as to call for disciplinary action, it being understood that, if the officer who has become bankrupt or insolvent has committed any act of dishonesty or has otherwise acted discreditably he will be dismissed. The Department should take steps to prosecute the offender if there is evidence of the misappropriation of public monies.

(3) Pending the result of the Departmental Inquiry into his case, the officer concerned should be continued in his post, unless there is *prima facie* reason to believe that public monies have been or are likely to be involved, in which cases he should be suspended.

(4) Provided always that in no circumstances can a Civil Servant who is bankrupt or insolvent continue to be employed on duties involving the handling of public money.

These rules apply to persons temporarily employed in the Government Service as well as to permanent Civil Servants.

I am to add that, while My Lords attach importance to the maintenance, in ordinary cases, of uniformity of practice throughout the Public Service in accordance with the rules stated above, They have no desire to interfere with the discretion of Heads of Departments to deal exceptionally with individual cases. In any case of difficulty They will be glad to advise Departments, in the light of the information and experience at Their disposal, as to the proper course of action.

TREASURY CIRCULAR DATED MAY 27, 1924 (No. 12/24).

Public Accounts Committee, 1920, Third Report.

Contracts: Dual Capacity.

THE Lords Commissioners of His Majesty's Treasury have had before Them the recommendation contained in paragraphs 7 and 8 of the Third Report of the Committee on Public Accounts, 1920, reading as follows:—

“ DUAL CAPACITY.

“ 7. We have devoted a good deal of attention to what may briefly be termed ‘ dual capacity ’ cases, *e.g.*, cases in which an officer of a department, holding a responsible position, allots a contract either to himself or to a firm in which he is materially interested. Cases of this kind have tended to occur during the war when traders, merchants and professional men have put their knowledge and powers at the disposal of the Government, working side by side with persons brought up in the traditions of the Civil Service. But, apart from this, it is evident that as the activities of the State expand, such cases tend to become more common and that they are especially liable to become an occasion for scandals. It is also clear that one difficulty in dealing with the subject is that it is so largely a question of degree. Nevertheless, we think that the subject is one on which instructions to the public service from the Treasury (as the central department) would be desirable.

“ 8. The Ministry of Munitions (while they do not appear to have taken action on the matter till 11th June, 1917) laid down certain regulations (shown in Appendix 17) which may be useful in this connection, and two points, at any rate, seem to us clear. First, an officer should not decide a case in which he is interested, but should ask a colleague to deal with it. Secondly, all the facts as to his interest must be fully disclosed—both to his own department and (if it be concerned) to the Treasury. If, after such disclosures, he is directed, by a Minister or otherwise to deal with the case, he can do so with a clear conscience—though the question may then arise whether it was judicious to give him those directions.”

“ 2. Reference to the evidence which led to these comments will show that they relate more particularly to higher staff rendering temporary service to Government departments during the special war emergency, but My Lords consider it desirable for Them to restate the views which They Themselves hold in the matter in order that the practice of departments may be identical.

3. The forms of contract in use in Government departments contain, in accordance with the provisions of the House of Commons (Disqualification) Acts, 1782 and 1801, a condition that Members of Parliament shall not be admitted to any share or part in contracts made by Government departments. The wording of this clause should in all Government contracts adhere strictly to the wording prescribed by the House of Commons (Disqualification) Act, 1782, a reference being made at the end of the clause to the Acts of Parliament having reference to the subject as follows:—

“ MEMBERS OF PARLIAMENT.

“ No member of the House of Commons shall be admitted to any share or part of this contract or to any benefit to arise therefrom (*see* House of Commons (Disqualification) Acts, 1782 and 1801).”

This clause does not operate to the exclusion of Members of Parliament who are members of public companies.

4. The regulations of several departments already prohibit the acceptance of Government contracts by Government servants in departments concerned.

5. Their Lordships, however, concur in the view of the Committee that more definite general directions should be given, and They accordingly desire that instructions shall be given as follows:—

6. Unless the Government servant concerned shall have first disclosed fully to the head of his department the measure of his interest in the contract, and permission of such head of department shall have been given for the contract, purchase or sale to proceed notwithstanding the interest held by a Government servant,

(a) no Government contract shall be let to a Government servant in the contracting department or to any partnership of which he is a member (apart from a corporation in which he is a shareholder) ;

(b) no Government contract shall be let to any company of which a Government servant in the contracting department is a director (except as a nominee of His Majesty's Government) ;

(c) no Government servant shall be permitted to accept a directorship except as a nominee of His Majesty's Government in any company holding a contract with his department.

7. No purchase shall be made from, and no sale made to, any Government servant without the express sanction of the Treasury except as follows :—

(a) Transactions occurring in the ordinary course of public business, *e.g.*, the purchase of Stationery Office publications, National Savings Certificates, postage stamps, Money Orders, etc.

(b) *Applicable only to Admiralty, War Office and Air Ministry.*

(i) Sales of provisions, clothing, officers' chargers, etc., under regulations approved from time to time ;

(ii) sale of old stores, etc., at fixed prices (available to the public) ;

(iii) purchases from or sales to officers in exceptional circumstances (on express headquarters authority in each case) on the understanding—

(I) that purchasers of Government stores on special terms by private treaty, or at auction shall not be permitted ;

(II) that the mere fact that stores are required to meet personal requirements and not for commercial purposes shall not be regarded as fulfilling the description " exceptional circumstances."

8. In no circumstances should any Government servant negotiate or arbitrate in any matter affecting a contract, purchase or sale, where, in his private capacity, he is interested either as a principal or as a shareholder in a company being one of the principals to the matter under consideration.

9. Steps should be taken to remind all Government servants that it is their duty, if they have occasion to come into contact with any matter concerning a business organisation in which they have an interest to disclose that interest to the head of their department and to ask that some other officer may deal with the case.

10. Departments are reminded that clause 17 of the Order in Council of 10th January, 1910, still applies to permanent civil servants who are by that clause precluded from accepting any post in the management of any society or any trading, commercial, industrial or financial firm or company which would require the attendance of such officer at any time between the hours of 10 a.m. and 6 p.m.

11. The conditions of this letter need not be applied to Reserve or Auxiliary Forces except as regards permanent staffs.

TREASURY CIRCULAR DATED AUGUST 11, 1927 (No. 8/27).

Civil Servants Engaging in Private Occupations.

The Lords Commissioners of His Majesty's Treasury have had under review the conditions under which it is allowable for Civil Servants to engage in private occupations.

2. Under clause 17 of the Order in Council of 10 January 1910, permanent officers in His Majesty's Civil Establishments are precluded from accepting any post in the management of any society or any trading, commercial, industrial or financial firm or company, which would require their attendance at any time between the hours of 10 a.m. and 6 p.m.

This rule should be regarded as applicable to all whole-time Civil Servants, whether established or unestablished.

3. The clause referred to above represents only a minimum provision, and Departments have found it necessary from time to time to issue detailed regulations on the subject. The special circumstances connected with the activities of particular Departments can best be dealt with by Departmental Regulations, but My Lords think it desirable to draw attention to the following general principles which They consider should be embodied, together with clause 17 of the Order in Council above referred to, in all Departmental Regulations dealing with this matter :—

(i) No officer may at any time engage in any activity which would in any way tend to impair his usefulness as a public servant.

(ii) No officer may engage in any occupation or undertaking which might in any way conflict with the interests of his Department or be inconsistent with his position as a public servant.

(iii) It is the duty of any officer, who may have any doubt as to the propriety of undertaking any particular work, to consult the Head of his Department, or the Establishment Officer.

4. It should, of course, be clearly understood that the fact that an officer has undertaken outside employment, whether or not after the consultation referred to in paragraph 3 (iii), cannot be taken into account in the allocation of staff to particular duties or stations.