

The Czech gold

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

The darkest episode in the history of the BIS before the war concerned the gold of the Czechoslovak National Bank. In March 1939, German troops occupied Prague and established the Protectorate of Bohemia and Moravia. A few days later, the Czechoslovak National Bank, now under German control, instructed the BIS to transfer gold that the BIS held for its account at the Bank of England to the account of the Reichsbank. After consultation the BIS executed the instruction, whereupon the Bank of England, where the gold was held in the name of the BIS, made the transfer in its books.¹

The transfer caused a scandal in Britain, where Parliament and the press accused the Bank of England and its governor, Montagu Norman, who was also a member of the BIS board, of handing Czech gold to Hitler. The Bank of England and the BIS argued that they had acted in accordance with the instructions of the account holder and that they could not question the legitimacy of the Czechoslovak National Bank's management. Critics replied that the instruction had been given under duress by a central bank controlled by an occupying power, and that the BIS and the Bank of England should have refused to execute it.

The Czech gold affair raises questions that remain central to modern financial law. A bank that receives instructions from a client must verify that the person giving the instructions is authorised to do so. When the client is a state institution of a country under occupation or subject to a coup, the question of who is authorised to represent it becomes a question of international law and politics. Modern sanctions regimes resolve many of these questions by freezing the assets of the institutions concerned. The freezing of the assets of the Central Bank of Russia by the European Union, the United States, Switzerland and other states in 2022, and the debates about the use of these assets for the reconstruction of Ukraine, show that the question of central bank assets in times of war is as relevant today as it was in 1939.²

1 Notes

1. On the transfer in March 1939 of gold of the Czechoslovak National Bank held by the BIS at the Bank of England to the account of the Reichsbank, after the German occupation of Prague, and the ensuing controversy in Britain, see Toniolo, 2005; the literature on the history of the BIS and of the Bank of England. Amount to be verified. ↩
2. On the freezing of the assets of the Central Bank of the Russian Federation by the EU, the US, the UK, Switzerland and other states from February 2022, and the debates on the use of the proceeds for Ukraine, see the relevant sanctions regulations and the literature. To be verified. ↩

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