

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 11, 1950

To Mr. Eccles

Subject: _____

From Mr. Carpenter

CONFIDENTIAL

The attached memorandum from Messrs. Thomas and Marget with respect to representation of the Federal Reserve System on the Board of the Bank for International Settlements is being distributed to the members of the Board for their information.

When there is time for it on the agenda at a regular meeting of the Board, Mr. Szymczak would like to have a brief review by members of the staff of the international situation and in connection with that some discussion of the attached memorandum.

Attachment



May 5, 1950

To: Board of Governors
From: Woodlief Thomas and
Arthur W. Marget

Subject: Representation of Federal Reserve System on Board of Bank for International Settlements

We should like to recommend that the Board consider the question of formal representation of the Federal Reserve System on the Board of the Bank for International Settlements. This proposal and the following presentation of the various considerations involved have been discussed with Governor Szymczak and with the Board's senior staff.

1. Reasons for Board's consideration

It is believed that formal representation of the Federal Reserve System on the Board of the Bank for International Settlements would strengthen the ties between the Federal Reserve System and European central banking authorities, by providing regular occasions for informal but informative discussions on matters of mutual concern. Such discussions would be extremely valuable even now; they will become increasingly necessary with progress toward currency convertibility and the re-establishment of normal relations between the money markets of the world that may be expected to follow the attainment of convertibility.

2. History of problem

The history of the problem of the relation of the U. S. Government and the Federal Reserve System to the Bank for International Settlements, from the time of the establishment of the B.I.S. in 1929 up to the N.A.C. action of April 1948, is summarized in Annex I, hereto. The conclusion that may be drawn from this historical review is that the reasons which in the past have prevented official U. S. representation on the Bank for International Settlements Board are hardly applicable in the present situation.

3. Current issues

The argument in favor of the representation of the Federal Reserve System on the Board of the B.I.S. does not derive from an assumption that the B.I.S., as an institution, is now engaged, or is likely to be engaged, in operations, or in the making of policy decisions, which require the active participation of the Federal Reserve System. On the contrary, the argument rests on the simple fact that the meetings of the Board of the B.I.S. provide an occasion for informal discussions among top representatives of European central banks on problems of mutual interest; that it is important for the U. S. authorities to keep informed of the current trend of thinking of European central banks; and that membership of the Federal Reserve System on the Board of the B.I.S., in providing the occasion for informal conversation with European bankers at stated intervals, would make available to those responsible for the determination of the

international financial policy of the United States information which would not otherwise be easily available. Under the charter of the B.I.S., the Federal Reserve System is the only official U. S. authority that could take advantage of this opportunity.

It follows, from this, that there should be no ground for apprehension, on the part of any other agency of the U. S. Government, lest membership of the Federal Reserve System in the B.I.S. (and the resulting attendance of Federal Reserve officials at the meetings of the Board of the B.I.S.) might conceivably result in deviations from existing institutional arrangements for the official presentation of U. S. policy, or the transference to the B.I.S. of functions now exercised by other international agencies in which the United States is officially represented. Even in the informal discussions that may be expected to take place in connection with the meetings of the B.I.S., the U. S. representatives, by virtue of the membership of the Chairman of the Federal Reserve Board in the N.A.C., would inevitably be familiar with, and would regard themselves as bound by, N.A.C. actions, which alone represent the position of the Executive Branch of the U. S. Government on matters of international financial policy. It is equally clear that there can be no thought of allowing Federal Reserve System representation on the Board of the B.I.S. to lead, or to be interpreted as leading, to an encouragement of the B.I.S. to assume functions now exercised by the International Monetary Fund. On the contrary, the very presence of the U. S. representatives, in the persons of representatives of the Federal Reserve System, could be used to stop the development of such tendencies if they were ever to emerge.

4. Form of representation of F. R. System on Board of B.I.S.

Representation of the Federal Reserve System would not require acquisition by the System of the "American tranche" of the shares in the B.I.S. (the shares taken up, at the time the B.I.S. was established, by the syndicate composed of J. P. Morgan and Company, the First National Bank of New York, and the First National Bank of Chicago). Informal exchanges of views with Governor Frere have indicated that the Statutes of the B.I.S. (the relevant portions of which are summarized in Exhibit A to Annex I of this memorandum) could be amended in such a way as to permit representation of the Federal Reserve System on the Board of the B.I.S. to take the following form:

- a. The Chairman of the Federal Reserve Board could be the U. S. ex-officio director on the Board of the B.I.S.
- b. The Chairman of the Federal Reserve Board could appoint, as the second permanent U. S. member of the Board of the B.I.S., either the President or the Chairman of the Board of the Federal Reserve Bank of New York.
- c. The Chairman of the Federal Reserve Board could designate as his substitute Nominee the member of the Board who normally serves as his Alternate on the N.A.C.

d. The Alternate to the substitute Nominee, likewise to be appointed by the Chairman of the Federal Reserve Board, could be, not only a member of the Board of Governors, but also, with the concurrence of the Board, any other person whom the Chairman of the Board might designate.

5. Possibility of representation of F. R. System on Board of B.I.S. under provisions of the Federal Reserve Act

There are only two provisions of the Federal Reserve Act (in section 10 thereof) which could conceivably be interpreted as prohibiting representation of the Board of Governors on the Board of the B.I.S. These are (1) the provision prohibiting members of the Board of Governors from serving as directors of banking institutions, and (2) the provision prescribing that the members of the Board of Governors "shall devote their entire time to the business of the Board." Annex II hereto presents the reasons for believing that these provisions would not prevent a member of the Federal Reserve Board from serving on the Board of the B.I.S.

6. Procedural steps suggested

It is suggested that the following procedure be adopted:

a. The Board would take a decision favoring, in principle, representation of the Federal Reserve System on the Board of the B.I.S. along the lines indicated in paragraph 4 above, and would authorize the Chairman (or a member of the Board to be designated by him) to explore further with Governor Frere the nature of the amendments to the statutes of the B.I.S. necessary to effect such representation.

b. The Chairman of the Board would inform the President of the Federal Reserve Bank of New York of the foregoing decision.

c. In view of the history of U. S. relations with the B.I.S., the Chairman of the Board (or a member of the Board designated by him for the purpose) would formally consult the Department of State to ascertain whether any political objections now exist to representation of the Federal Reserve System on the Board of the B.I.S.

d. Prior to presentation to the N.A.C. of the proposal that the Federal Reserve System should be represented on the Board of the B.I.S., the Chairman of the Board (or a member of the Board designated by him for the purpose) should discuss the matter informally with the Secretary of the Treasury, such other members of the N.A.C. as the Chairman may deem it desirable to inform in advance of the indicated proposal to the N.A.C., and the U. S. Executive Director of the International Monetary Fund.

e. The Chairman of the Board (or a member of the Board designated by him for the purpose) might, at his discretion, discuss the matter informally with such members of Congress as he may deem it desirable to inform of the Board's intentions.

f. If the action by the N.A.C. is favorable, the Board should inform the B.I.S. of its intentions. If possible, this should be done in sufficient time to make it possible to present the required amendments to the B.I.S. statutes at the annual meeting of the B.I.S. in June of this year.